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Vietnam In U.S. Foreign Policy:  
An Association For The  
Strategic Balance In Southeast Asia

by

**John William Little, Jr.**  
**Lieutenant, United States Navy**  
**B.A., University of Texas-San Antonio, 1981**

Submitted in partial fulfillment of the requirements  
for the degree of

**MASTER OF ARTS IN NATIONAL SECURITY  
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This thesis asserts that it is critical for the U.S. to re-evaluate its foreign policy towards Vietnam and to begin viewing that country's strategic potential for meeting future threats to Southeast Asia: specifically the Chinese military threat, a threat based on China's territorial claims in the South China Sea and an aggressive program of modernization of China's military; and the Japanese economic threat, a threat reinforced by Japan's use of conditional aid, financial control of major industries throughout the region, and a structural dependency on imports of critical raw materials, primarily from Southeast Asia.

America's relations with Vietnam have remained virtually unchanged since U.S. forces were withdrawn in April, 1975. However, the end of the Cold War and the collapse of the Soviet Union have released the U.S. from its need to view Vietnam as an extension of Moscow's influence in Southeast Asia. A policy of constructive engagement with Vietnam permits the U.S. to maintain the balance of power in Southeast Asia against encroaching Chinese and Japanese threats. America's economic interests in Asia, now one-third larger than in Europe, also create an imperative for change and the potential of Vietnam, in resources, manpower, and strategic location, should be made a factor in future policy formation.

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# THESIS

VIETNAM IN U.S. FOREIGN POLICY:  
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STRATEGIC BALANCE IN SOUTHEAST ASIA

by

LT John William Little, Jr., USN

December 1991

Thesis Advisor:

Claude A. Buss

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## ABSTRACT

This thesis asserts that it is critical for the U.S. to re-evaluate its foreign policy towards Vietnam and to begin viewing that country's strategic potential for meeting future threats to Southeast Asia: specifically the Chinese military threat, a threat based on China's territorial claims in the South China Sea and an aggressive program of modernization of China's military; and the Japanese economic threat, a threat reinforced by Japan's use of conditional aid, financial control of major industries throughout the region, and a structural dependency on imports of critical raw materials, primarily from Southeast Asia.

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## I. INTRODUCTION

Lord Palmerston, while British Prime Minister, laid the foundation for what has become a major precept of contemporary foreign policy; that a country should have neither permanent friends nor permanent enemies, just permanent interests. In the pragmatic world of international diplomacy, however, the relationship between a country's national interests and its friendship or hostility with other countries is often difficult to define. In defining those relationships there should be a point at which perceptions about another country clearly warrant changing. The U.S. is at just such a point with its foreign policy towards Vietnam.

Where Vietnam is concerned, U.S. foreign policy changed very little in the period between April 1975 and the late summer of 1990. The U.S. remained embroiled in the resolution of war-related issues and a Cold War-generated quest to isolate and punish Hanoi's communist regime. The official administration position during this period was to maintain the status quo, that is, to continue the economic embargo begun in 1975 in an effort to force the Vietnamese government to accept conditions dealing with a settlement in Cambodia and to resolve the MIA-POW issue.<sup>1</sup> Normalization of relations between Vietnam and the U.S. remains contingent upon Hanoi meeting those

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<sup>1</sup>Susumu Awanohara, "Deal on my terms," Far Eastern Economic Review (FEER), 18 April 1991, pp.13-14. The latest stated conditions are actually four phases aimed at achieving a settlement in Cambodia: agreement on the UN settlement plan; signing the settlement plan; implementation of the plan; and free elections in Cambodia. All phases must be complete before full normalization will be reestablished.

conditions. This policy of holding Vietnam at least partially responsible for a settlement in Cambodia and for complete resolution of the MIA issue prior to normalization of relations is not widely supported in congress or by the business community at large.<sup>2</sup> Their focus is on the potentially lucrative markets and resources of Vietnam.

But now the Cold War has ended. In Southeast Asia, non-polar relationships and regional groupings are likely to replace bipolar alliances with their subjugation of national interests to an East-West conflict. The economic miracle in Asia, which was largely facilitated by U.S. economic and political policies supporting its Cold War stance, is entering a new era. The status of super power involvement in the region is in flux, as is the position of regional leadership. The challenges that face Southeast Asia are now more economic than security related, but without the predominant extra-regional presence that once helped to suppress indigenous disputes many deep-rooted religious and ethnic conflicts may again surface.

Vietnam has been the major factor in U.S. foreign policy in Southeast Asia since the French turned to Washington for aid in an attempt to stave off, what by that point, appeared to be an inevitable defeat at the hands of the Viet Minh.<sup>3</sup> Vietnam then became the focus of a policy which sought to limit the

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<sup>2</sup>Bert Robinson, "U.S., Vietnam inching toward better relations," San Jose Mercury News (SJMN), 28 July 1991, Sec.A, p.1 & 14 and "Eight senators urge trade with Vietnam," SJMN, 4 November 1990, Sec.A, p.6.

<sup>3</sup>Stanley Karnow, Vietnam-A History, (New York: Penguin Books Ltd., 1983), pp. 187-198. The French casualties totaled ninety thousand by 1952 and the French were spending on the war more than twice what they were receiving in Marshall Plan aid from the United States. Sentiment at home in France had turned against the war because of these factors and the affect they were having on French lives.

growing communist involvement in the region. The effects of America's failure to stop North Vietnam from reuniting the country and the Vietnamese invasion and occupation of Cambodia have solidified opinion against Hanoi. Even as U.S. dealings with Cold War adversaries China and the Soviet Union pragmatically contradict policies on human rights and armament proliferation, no such allowances have been made for Vietnam. The dialog entered into late in 1990 between Vietnamese and U.S. officials, coming after the Paris announcement that the U.S. would no longer support the resistance coalition in Cambodia because of its links with the Khmer Rouge, has served primarily as a conduit to deliver further conditions for normalization.<sup>4</sup>

It is time to reassess that policy. A major reason is the mounting threat of regional economic dominance by the Japanese. Though the U.S. still maintains substantial economic ties in Southeast Asia, American budget and trade deficits have severely limited continuing U.S. investment in the region. The Japanese have skillfully used a combination of development aid, finance, and direct investment to secure the source of cheap labor and natural resources within the region needed to maintain their export-driven economy. Vietnam stands poised to accept aid and investment from almost any institution or nation willing to cooperate and Japan so far has shown the most interest. The U.S. could very easily find itself on the outside looking in while the Japanese tie up a large percentage of the available markets. Adding Vietnam to their overall regional portfolio would give Japan what some feel they were after in

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<sup>4</sup>Thomas Friedman, "U.S. Shifts Cambodian Policy; Ends Recognition of Rebels; Agrees To Talks With Hanoi," The New York Times, 19 July 1990, Sec. A, p.1. See also Susumu Awanohara, "Deal on my terms," FEER, 18 April 1991, p.13, and Susumu Awanohara and Murray Hiebert, "Open door in dispute," FEER, 25 April 1991, pp.10-11.

the years leading up to World War II-namely a 'co-prosperity sphere' in Asia. Can the U.S. afford to allow this to happen because of a foreign policy that is out of step with the current world situation?

A second factor, scarcely less important a reason than Japan's economic threat, is China's growing military might. China already possesses one of the largest military establishments in the world and a major focus of that military, specifically the Navy, now appears to be on the ability to project power outside her borders, at sea and onto the land.<sup>5</sup> This not only involves all the nations in the region, but affects any long-term arrangements for forward basing of our military in the Pacific. Disputes between China and other Southeast Asian countries over territories in the South China Sea could become the next test of America's resolve in defending its interests and those of its most important trading partners; partners who now account for the largest percentage of U.S. foreign trade. The sea lanes which transit through the South China Sea are vital to the entire Pacific rim and would be critically disrupted during any such conflict. Vietnam, as the next largest littoral state to the South China Sea and a party to the territorial disputes, could be in a pivotal position to counter any such Chinese threats to the region.

Current U.S. policy has apparently aimed at bringing about a collapse of the government in Hanoi in the hope that a new regime may have a better chance at moving the country further away from its Leninist social and political orientation. It may now be time for the U.S. to abandon this negative, destructive approach in our attempts to foster change. Vietnam has the

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<sup>5</sup>You Ji and You Xu, "In Search of Blue Water Power: The PLA Navy's Maritime Strategy in the 1990's," The Pacific Review, Volume 4, No. 2, 1991, pp. 137-148.

potential, in terms of natural resources, manpower, and strategic location, to provide a buffer against both the Japanese and Chinese threats. Having this buffer is in the American national interest. However, Vietnam's potential can only be realized by a revision in American foreign policy; the lifting of the embargo; the active pursuit of economic restructuring and strengthening in Vietnam; and the inclusion of Vietnam in regional organizations. The promotion of a stable Vietnam as an element in a more stable region is the most important factor in support of American interests there.

Following the Introduction, Chapter II examines what U.S. foreign policy towards Vietnam has been since 1975, its root causes, and will lead into a current assessment of Vietnam, addressed in Chapter III. This analysis includes a political, economic, and military review. Covered in this section will be the current level of Soviet involvement and the impact of the recent Seventh Party Congress in Hanoi.

Chapter IV will look at Vietnam's relations with the region's other two communist countries, Laos and Cambodia, and with the non-communist countries that make up ASEAN. The chapter will evaluate regional associations: their membership; their influence regionally and internationally; and their prospects for the future. One aspect growing out of these associations is a form of regionalism or sub-regionalism and will be discussed in light of its future impact. Southeast Asia's ability to resist the dual threats posed by Japan and China in the coming years will depend upon their solidarity in terms of regional associations and groupings. Vietnam, because of its strength in resources and its strategic location, should logically be a

member of these associations. This focus on associations will stress how Vietnam's inclusion could build and strengthen regional resilience.

Chapter V assesses the threats that Japan and China pose to Southeast Asia. Included will be an economic and military analysis of the nature of each threat and what affect it is likely to have on the region. The following chapter, Chapter VI, will cover: U.S. interests in Southeast Asia; contemporary relations between Vietnam and the United States; and to what extent the influence of U.S.-third-party relations, centering on Vietnam, has on the region.

Based on supporting material examined in this thesis, the conclusion is reached that U.S. foreign policy should change to reflect the strategic importance of Vietnam in combating Japanese economic and Chinese military aggression in the coming years. Appropriate policies will be suggested to consummate a new association with Vietnam that will promote critical American interests.

## II. U.S. FOREIGN POLICY INITIATIVES TOWARDS VIETNAM (APRIL 1975-JULY 1990)

America's foreign policy towards Vietnam between April 1975 and July 1990 withstood changes in the U.S. presidency, continuing rapprochement with the Soviet Union, collapse of communism in Eastern Europe, and failed policy initiatives in support of repressive dictators such as the Shah of Iran, Ferdinand Marcos, Manuel Noriega, and Saddam Hussein. During that period, America's Vietnam policy was one of the nation's most consistent over those fifteen years-consistently negative. The purpose of this chapter is to examine America's post-April 1975 Vietnam policy: the sources of the policy; the international atmosphere during that period which affected policy formation; specific U.S.-Vietnamese relations at the end of the war; and how the Cambodian issue fits into Washington's handling of Vietnam.

The issues that created and sustained that policy stemmed from two identifiable sources. The more important, given the period in which it was originated, was the struggle between the Soviet Union and the United States, or to employ more specific terms: the Cold War; containment; and the domino theory. These terms, in order, give definition to America's involvement in Vietnam: the global conflict between ideologies; the strategy which drove American foreign policy for forty-five years; and the focus in Southeast Asia of both the conflict and the purpose behind combating it. When the last Americans were removed from the Embassy in 1975, signifying an end to America's physical involvement in Vietnam and having been so vividly depicted on television, the United States began to assess the consequences of

its first defeat. Not just a localized defeat, in a country of little or no interest to the American people, but a defeat on the hottest battlefield of the Cold War; with implications that were to affect the way Washington has conducted foreign and domestic policy ever since.

The second source of America's Vietnam policy was the war itself and those specific issues that remain unresolved, such as soldiers that are listed as missing-in-action (MIA) or as prisoners-of-war (POW) and who have not been accounted for to the satisfaction of their American families. Accounts of photographs of suspected POW's which have come to light between late 1990 and the summer of 1991 and the bitter disputes they have caused between families of servicemen listed as missing, independent organizations involved in searching for MIA-POW's, Congress, and the Pentagon attest to the divisiveness of the issue.<sup>6</sup>

One issue that was not a direct source of America's Vietnam policy, but one which provides a 'cause celebre' on which the current policy rests, is Vietnam's invasion of Cambodia in 1978, their ten-year occupation, and the installation of a pro-Vietnamese government in Phnom Penh. The Cambodian issue and how it has dominated U.S.-Vietnamese relations will be examined after a discussion of the actual roots of the foreign policy starting in April 1975.

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<sup>6</sup>Pamela Kramer, "Photograph revives hopes for families of three MIA's," SIMN, 18 July 1991, Sec.A, pp. 1 & 13, "U.S. accused of ignoring tips of POW's in Vietnam," SIMN, 21 May 1991, Sec.A, pp. 1 & 9, Clifford Krauss, "A Photo Jogs Congress On Missing in Vietnam," The New York Times, 24 July 1991, Sec. A, p. 7, Ann Devroy, "Scrowcroft: No Evidence MIA's Alive," The Washington Post, 27 July 1991, Sec.A, p. 1, and Clifford Krauss, "Scrowcroft Defends Pentagon Over Vietnam Photo," The New York Times, 27 July 1991, International Section, p. 2.

## A. INTERNATIONAL FACTORS AFFECTING U.S. FOREIGN POLICY

To understand America's Vietnamese foreign policy at the end of the Vietnam War one has to place it in the larger context of the Cold War and the dynamics of superpower relations during the early years of detente. Several critical events were acting to reshape the global balance of power and highlight how interrelated the entire scope of American foreign policy had become to the U.S.-Soviet conflict. The Nixon administration, reacting to Hanoi's move towards Moscow and away from Peking, had initiated a rapprochement with China in 1972, fueling the Sino-Soviet split begun during Mao Zedong's Cultural Revolution.<sup>7</sup> In 1973 the Middle East erupted with the Yom Kippur War. Started when Arab forces of Egypt and Syria attacked Israel, this war initiated a new set of challenges from the Third World and again pitted the Soviets, as suppliers of the Arabs, against the U.S. which was backing Israel. The outcome of the war and the U.S.-Soviet standoff helped to precipitate the oil crisis of the early 1970's. This, in turn, led to a radical shift in world support away from Israel to a more pro-Arab stand given Arab influence over and control of energy resources.<sup>8</sup>

By the 1976 election of Jimmy Carter as president, American foreign policy continued its pursuit of containment by reliance upon Nixon's Guam

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<sup>7</sup>John K. Fairbank, Edwin O. Reischauer, and Albert M. Craig, East Asia, (Boston: Houghton Mifflin Company, 1989), pp. 959-965 and 972-975, John King Fairbank, The Great Chinese Revolution 1800-1985, (New York: Harper & Row, Publishers, Inc., 1986), pp. 332-333 and 343, and Robert G. Sutter, The Cambodian Crisis & U.S. Policy Dilemmas, (Boulder, Colorado: Westview Press, Inc., 1991), p.3.

<sup>8</sup>Walter LaFeber, America, Russia, and the Cold War 1945-1980, (New York: John Wiley & Sons, Inc., 1980), pp. 282-283.

Doctrine.<sup>9</sup> The general sense worldwide was that the U.S. was in retreat. The Carter Administration was moving American foreign policy closer to China and placing Indochina within the context of the strategic triangle of U.S.-China-Soviet relations. China's view of Vietnam as a Soviet satellite was reaffirmed by National Security Adviser Brzezinski during his May 1978 visit to Peking. When the Vietnamese later showed willingness to drop the precondition of development assistance before normalization, the Carter Administration was unable to respond for fear of jeopardizing relations with Peking and the "China card" in counteracting Soviet global strength and influence.<sup>10</sup>

In Southeast Asia, historical animosity between the Chinese and Vietnamese began to reach the open hostility stage by the late 1970's, caused by a combination of specific cultural clashes and the paranoia China felt about being encircled by the Soviets. After the unification of North and South Vietnam, the Vietnamese moved to purge Chinese communists from all official organizations and went even further with its nationalizing of Chinese businesses. An estimated 175,000 ethnic Chinese were forced to leave Vietnam in 1977.<sup>11</sup> The Vietnamese were also receiving large shipments of arms from

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<sup>9</sup>The Guam Doctrine, along with Vietnamization, was Nixon's plan to withdraw the U.S. from Southeast Asia. It stated that the U.S. would continue to help in "the defense and development of allies and friends" but "cannot-and will not- conceive all the plans, design all the programs, execute all the decisions and under take all the defense of the free nations of the world,"Walter LaFeber, The American Age-U.S. Foreign Policy at Home and Abroad since 1750, (New York: W. W. Norton & Company, Inc., 1989), p. 605.

<sup>10</sup>Pamela Sodhy, "A Survey of U.S. Post-Vietnam Policy and the Kampuchean Dilemma, 1975-1989: A Southeast Asian View," Contemporary Southeast Asia, Volume 11, Number 3, December 1989, pp. 289-290.

<sup>11</sup>U.S. Congress, House, Committee On Foreign Affairs, Vietnam's Foreign Relations 1975-78, report prepared by Douglas Pike, Congressional Research, Foreign Affairs and

the Soviets and distributing them to troops on the border with China. In 1978 Vietnam joined Comecon and signed a Treaty of Friendship and Cooperation with Moscow. Whether this came about through Soviet insistence, aimed at securing an ally on China's southern border, or through Hanoi's own initiative out of fear of China and the need for Soviet economic aid, the result was increased hostility by China and from other Asian countries.<sup>12</sup> Border clashes between Vietnam and China became frequent in 1978 and in 1979 Chinese troops invaded Vietnam to "teach them a lesson" for their invasion of Cambodia.<sup>13</sup>

Cambodian communists, the Khmer Rouge, consolidated their control over that country the same month that the North Vietnamese took control of Saigon-April 1975. Between that time and the Vietnamese invasion in December 1978, the Khmer Rouge under Pol Pot sought completely to restructure the Cambodian society; destroy all ties to past culture, literature, and Buddhism; and to control every aspect of daily life. Estimates of deaths from this period range from 1.3 to 3 million out of a population of 7.3 million.<sup>14</sup> The Khmer Rouge were fiercely anti-Vietnamese and established a close

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National Defense Division, Library of Congress, (Washington: U.S. Government Printing Office, 1979), pp. 5-7.

<sup>12</sup>Ibid., pp. 7-10.

<sup>13</sup>Sutter, The Cambodian Crisis, p. 114.

<sup>14</sup>Ibid., pp.14-15. Depending on the source, the total number of Cambodians to die at the hands of Pol Pot and the Khmer Rouge may vary from approximately one million to in excess of three million. The Department of the Army in Vietnam-A Country Study, (Washington D.C.: U.S. Government Printing Office, 1989), p. 216, places the toll near two million. In "Pol Pot Plots Return, Using U.N. as Ally," The Asian Wall Street Journal Weekly, 3 June 1991, p.13, Christophe Peschoux estimates as many as 1.5 million.

association with the Chinese. Ethnic rivalry between the Cambodians, Vietnamese, and Chinese added to the growing conflict and this too became a part of the Sino-Soviet split. In mid-1978 the Democratic Kampuchean Armed Forces (DKAF), the army of the Khmer Rouge, attacked into Vietnam. On Christmas Day, 1978, the Vietnamese in retaliation launched a full-scale invasion of Cambodia and in January, after routing the Khmer Rouge forces, installed an exiled former DKAF officer, Heng Samrin, as head of state.<sup>15</sup>

## B. U.S.-VIETNAMESE RELATIONS BEGINNING IN 1975

The issues that were the focus of U.S.-Vietnamese relations after the fall of Saigon were contentious to say the least. The Vietnamese sought post-war reconstruction aid as part of the Paris Peace Accords of 1973, strongly linking aid to normalization of relations with Washington. Lucian W. Pye, in his book Asian Power And Politics, cites the Vietnamese "divorcement from reality" for their approach during secret talks with assistant secretary of state for East Asia and Pacific Affairs Richard Holbrooke in 1978. Pye states:

Hanoi, caught up in a complex game of diplomacy in the hope that it might establish relations with Washington before normalization occurred between Washington and Peking, persisted in demanding that "in return" for establishing formal relations Washington should pay Vietnam \$2 billion. This figure had been mentioned in the Paris Peace Accords of 1972, but Hanoi should have known that no United States Congress would vote such a sum after Hanoi's 1975 violation of the accords. Two days after President Carter signaled to Peking that Washington would be ready for normalization by the end of the year, Hanoi dropped its unrealistic demands; but by then it was too late.<sup>16</sup>

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<sup>15</sup>Ibid., p.15.

<sup>16</sup>Lucian W. Pye, Asian Power And Politics, (Cambridge, Massachusetts: The Belknap Press of Harvard University Press, 1985), p.241.

The U.S. had already imposed an embargo after the fall of Saigon in April 1975, which banned all commercial and financial transactions with Vietnam, blocked all Vietnamese assets in the United States, and banned all U.S. exports to Vietnam.<sup>17</sup> In 1975-1976 the U.S. vetoed Vietnam's request for membership in the United Nations three times and in May, 1977, the U.S. Congress voted to forbid all aid to Vietnam.<sup>18</sup> The aid to Vietnam had also been rejected by the Ford administration, which listed not only the violations of the Paris Accords, but raised the issue of unaccounted for Americans missing-in-action. When the Carter administration initiated serious attempts at establishing relations with Vietnam in 1977 and 1978, only to be met with demands for reconstruction aid before any information about MIA's would be provided, the entire process failed. The embargo was maintained and very little change in policy occurred, with minor exceptions on the MIA issue, until July 1990.

### **C. CAMBODIA'S POSITION IN U.S.-VIETNAMESE RELATIONS - APRIL 1975-JULY 1990**

Many if not all of the factors that would influence American foreign policy towards Vietnam after April 1975 had occurred before the invasion of Cambodia.<sup>19</sup> However, the one factor which, on its own, that went the furthest in cementing U.S. opinion against normalizing relations with Vietnam was the

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<sup>17</sup>Sutter, The Cambodian Crisis, p.52.

<sup>18</sup>Harvey Demaine, "Vietnam-Physical and Social Geography," The Fareast and Australasia 1990, (London: Europa Publications Limited, 1989), p. 1031.

<sup>19</sup>This is not to say that all issues had been resolved or that all attempts at resolving them had ceased. The MIA-POW issue first raised by President Ford and human rights issues-treatment of ethnic Chinese and refugees fleeing Vietnam-stressed by President Carter remain open despite years of attempted settlement.

Vietnamese invasion of Cambodia in December 1978. Condemned as blatant aggression against a neighboring country, the invasion acted to substantiate the view that the Vietnamese sought to control both Cambodia and Laos in an effort to build an Indochina Union. Douglas Pike, writing on Asian security issues states:

Since at least the 1930's, it was more or less assumed by Ho Chi Minh and other early Vietnamese communist leaders that the eventual political configuration of the three Vietnamese regions of Annam, Tonkin, and Cochinchina, plus Laos and Cambodia, would be some form of federation or confederation. In a hundred different institutional ways-economic, educational, cultural, and foreign policy-the three have been slowly merging during the past decade. By word and behavior Hanoi officials give every evidence that they need, and expect as inevitable, some form of federation or confederation of the the three Indochinese states.<sup>20</sup>

The Carter Administration moved to back the ASEAN states with an endorsement of their diplomatic role in the Cambodian civil war. ASEAN, and specifically Thailand as a threatened frontline state, was seen as a counterforce to Vietnamese aggression in Indochina. A statement by Assistant Secretary of State Holbrooke in 1979 explains the American viewpoint:

American policy toward the Indochina problem will be based on strong support for Thailand. We have accelerated military deliveries to Thailand all through the year, with strong Congressional support. We have been increasing military credits to Indonesia, Malaysia, and the Philippines as

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<sup>20</sup>Douglas Pike, "The Indochina Issue: Its Impact on Regional and Global Relations," in Asian Security Issues-Regional and Global, edited by Robert A. Scalapino, Seizaburo Sato, Jusuf Wanandi, and Sung-joo Han, (Berkeley, California: The Regents of the University of California, 1989), pp. 234-235. Pike also states that the invasion of Cambodia was more to ensure the long-time security of Vietnam from an increasingly dangerous Khmer Rouge than because of the KR's bloody rule. The invasion undertook by force what the Vietnamese had been attempting to accomplish through association-that is establish some form of union.

well. We view Thailand as the key to ASEAN, and ASEAN as the key to Southeast Asia.<sup>21</sup>

The Chinese were also encouraged by Secretary of Defense Harold Brown in 1980 to send arms to Thailand and President Carter reaffirmed the relevance of the Manila Pact.<sup>22</sup>

In 1982 the three resistance groups in Cambodia: the National United Front for a Independent, Neutral, Peaceful, and Cooperative Cambodia headed by Prince Sihanouk; the Khmer People's National Liberation Front led by former prime minister Son Sann; and the Democratic Kampuchea (the Khmer Rouge) headed by Khieu Samphan formed the Coalition Government of Democratic Kampuchea. This organization has been recognized by the United Nations and the U.S. as the legitimate government in Cambodia even though the agreement ceded the UN seat to the Khmer Rouge representative.<sup>23</sup> The U.S. withdrew this recognition in July 1990 because of the possibility that, in aiding the resistance coalition's attempts to overthrow the Phnom Penh government,

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<sup>21</sup>Pamela Sodhy, " U.S. Post-Vietnam Policy," pp. 291-292.

<sup>22</sup>The Manila Pact is actually the Southeast Asia Collective Defense Treaty, signed in Manila on 8 September 1954. The goal of the treaty was to establish an umbrella of defense for Indochina against further communist aggression. Known primarily by the name of the organization formed to implement the treaty provisions, SEATO, the treaty was in response to American objections to the Geneva Agreements ending the war between the French and the Viet Minh, specifically the division of Vietnam and the call for elections which the U.S. feared would be won by the communists in the North. James Cable, The Geneva Conference of 1954 On Indochina, (New York: St. Martin's Press Inc., 1986), p. 139.

<sup>23</sup>Cambodia: A Country Study, (Washington D.C.: the Department of the Army, 1990), pp. 195-203. As a result of talks between representatives of all four warring factions from Cambodia and from the UN Security Council, held in Peking in July 1991, an agreement was reached on how the new Supreme National Council for Cambodia will be represented at the UN. The seat will be held by a delegation headed by Prince Sihanouk and will include two delegates from the Phnom Penh government and one from the Khmer Rouge. Sheryl WuDunn, "Cambodian Factions Agree On How to Share U.N. Seat," The New York Times, 18 July 1991.

the Khmer Rouge would be given an opportunity to return to power.<sup>24</sup> At the same time, direct talks with Hanoi were proposed as a means of settling the Cambodian and MIA issues.

No major shifts in U.S. policy occurred between April 1975 and the 1990 withdrawal of support of the coalition government. However, the U.S. as a permanent member of the Security Council did take part in talks that led to the formation of the UN Peace Plan for Cambodia.<sup>25</sup> On other issues concerning U.S.-Vietnamese relations progress was made during the period examined by this chapter. A special envoy from the U.S., General Vessey, traveled initially to Hanoi in 1987 and then again in 1989 to discuss the MIA issue with Vietnamese officials and Congressional representatives twice held talks in Phnom Penh early in 1990.<sup>26</sup> There has even been a small amount of aid given by the U.S. to Vietnam for victims of the war.<sup>27</sup>

In summary, U.S.-Vietnamese relations remain cloaked in Cold War symbolism and unresolved, war-related issues. The policy received a form of validation in 1978 when the Vietnamese invaded Cambodia. However, too

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<sup>24</sup>Steven Erlanger, "Hanoi's Partial Victory," The New York Times, 20 July 1990, Sec. A, pp. 1-2 and Thomas Friedman, "U.S. Shifts Cambodia Policy," pp. 1 & 8.

<sup>25</sup>The UN Peace Plan for Cambodia is the product of negotiations dating back to December 1987 and specifies a framework for settling the conflict, started with the assumption of power of the Khmer Rouge in 1975, and marked by more than ten years of continuous war. The plan was developed by members of the UN Security Council Permanent Five, the U.S., China, the Soviet Union, Great Britain, and France, and endorses a monitored cease-fire, disarming of all armies, sharing of transitional power by a coalition of factional representatives, and the eventual holding of free elections.

<sup>26</sup>Sutter, The Cambodian Crisis, pp. 114-117. The representatives visiting Cambodia were Senator Robb and Senator Kerry.

<sup>27</sup>Clifford Krauss, "U.S. to Give Vietnam \$1 Million; Assistance Is First Since the War," The New York Times, 26 April 1991, Sec.A, p.1.

little emphasis has been placed on the atrocious Khmer Rouge regime and the threat they posed to the Vietnamese, as well as, their own people. The embargo that was placed on Vietnam has exacerbated the inevitable economic decline brought on by central planning, making the country desperately poor, but failing in its purpose to bring down the communist government. The next chapter will give a current assessment of Vietnam, revealing the effects that a combination of failed communist ideology and the U.S. embargo have had on that nation.

### III. CURRENT ASSESSMENT OF VIETNAM

Vietnam is undergoing significant changes at all levels of its society. Politically, the Seventh Party Congress held in June 1991 reaffirmed the dichotomous character which has defined the Vietnamese reform movement since its beginnings in 1986. Economic reform advocates secured a greater number of influential positions on the politburo, but the aggregate results of the congress indicate that political liberalization made no such gains. Economically, Vietnam has progressed, albeit slowly, since the reforms enacted in 1986 and this newly elected leadership may now be able to enact the scope of reforms needed to extract the country from its economic abyss. Militarily, Vietnam is facing a Hobson's choice. The military, until recently one of the largest in the world and considered essential to defend Vietnam against Chinese and Khmer Rouge threats, is financially draining the government. But in demobilizing large numbers of soldiers back into an economy which offers few job opportunities, the government now faces increasing unemployment and all the social ills that it brings.

Each of these three areas; political, economic, and military will be examined. This assessment will serve to illustrate two critical points: first, the interdependence of all three areas and how changes in any one area necessarily affects the others, and second, for Vietnam to be able to meet the almost staggering number of challenges in each of these three areas and to return as a productive member of the region, it must receive outside assistance.

The dilemma most often raised about America's foreign policy towards Vietnam is whether the U.S. should maintain the status quo, that is, rely on the embargo to affect further change in the government and all other sectors or should the U.S. end the embargo and use economic and technological support as the incentive to change. In one sense, change has occurred. The Seventh Party Congress was evidence of that. However, did the change occur because of failed Marxist ideology and is perhaps reflective of the evolutionary process already underway in Eastern Europe and the Soviet Union or was it brought about through U.S. foreign policy initiatives and the embargo? At what point can the assessment be made that sufficient change has taken place, regardless of its root cause, and to begin moving U.S. foreign policy forward to meet current and future threats to American interests in the region? The answer may lie in the current assessment of the three areas of Vietnamese society under examination.

#### A. VIETNAM'S CURRENT POLITICAL PERSPECTIVE

The Sixth Party Congress, which was held in 1986, marked a watershed for economic reform in Vietnam, but did little to alter the political structures that have been in place throughout the country since 1975. Nguyen Van Linh, who was the leader of a group of economic reformers, became the General Secretary of the Vietnam Communist Party (VCP) during that congress and set Vietnam on the road towards a free-market economy.<sup>28</sup> However, Vietnam has failed to realize the full potential of their reforms, the reason being that

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<sup>28</sup>Murray Hiebert, "More of the same," FEER, 11 July 1991, p. 10 and Charles A. Joiner, "The Vietnam Communist Party Strives To Remain The "Only Force", Asian Survey, Vol. XXX, No. 11, November 1990, p.1054.

while attempting to implement the programs of *doi moi* (new way of thinking), *canh tan* (renovation), and *cong khai* (openness), they also sought to retain a state-controlled, Marxist sector and pure Leninist political control.<sup>29</sup> Charles A. Joiner, writing in Asian Survey, states:

The VCP Politburo has made a serious gamble that the party can retain its sole leadership role by relying upon a combination of slightly revised socialist democracy and limited economic reconstruction. An underlying difficulty with this stance is that the SRV is a stereotypical example of communist intertwining of political, economic, and military spheres. No shift in any sphere can occur without impact upon the authority, leadership, policy and operational role, and pervasiveness of party cadres. But resolutions of the Sixth Congress and subsequent plenums have been based upon the hope that past errors could be remedied so that the party's position is not irretrievably undermined by economic necessity.<sup>30</sup>

The leadership in Vietnam has faced the collapse of communism in Eastern Europe and now in the Soviet Union, not with pragmatic realism, but instead have retrenched their viewpoint that socialism remains the only path. Nguyen Van Linh's Political Report of the sixth party Central Committee, given at the Seventh Party Congress concluded in June 1991, is a clear example of the prevailing philosophy of the leadership in Vietnam. The first of five parts of the report is titled "Persistence in Following the Socialist Path Is the Sole and Correct Choice" and one of the six recommended tasks (deemed urgent and fundamental) in the report is to renew the cadres and cadre-related work.<sup>31</sup>

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<sup>29</sup>Joiner, "The Vietnam Communist Party," pp. 1054-1057. Nguyen Van Linh was a strident defender of Article 4 of the Socialist Republic of Vietnam (SRV) Constitution, which states that the Communist Party is the "only force leading the State and Society."

<sup>30</sup>Ibid., p. 1063.

<sup>31</sup>"Further on Opening Session," from Hanoi Voice of Vietnam Network, in FBIS-EAS-91-123-S, 26 June 1991, pp. 9-12.

Sounding very much like Mikhail Gorbachev's attempts to defend the communist party in the Soviet Union shortly after the attempted coup but before the party's final collapse a week later, Linh was simply restating the long-held position that, "Yes the party had made mistakes and there was excessive bureaucratism, but that could be overcome through self-criticism and renovation."<sup>32</sup>

Significant changes in ruling party personnel was the highlight of this most recent party congress, an event which provided little in the way of substantive recommendations for solving the country's problems. Seven of the 12-man ruling politburo, including Secretary General Linh, were dropped. Six of the 9-man party secretariat were also replaced; changes that may prove to have greater impact than those on the politburo because the secretariat is responsible for the day-to-day running of the country. The central committee saw less dramatic changes, where only 42 of the 146-member organization were newly appointed. The majority of the central committee's new members are party officials from the provincial or central level, not technocrats or other private-sector representatives many reformers had hoped for.<sup>33</sup>

The impact of these changes will very depending on the specific job title of the individual, his ties to the party leadership, and may not become apparent for some time. However, the track record of those appointed to their new

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<sup>32</sup>Joiner, quoting from FBIS, DR/EAS, 2 February 1990.

<sup>33</sup>Hiebert, "More of the same," pp. 10-11 and "Central Committee Election Results Reported," from Hanoi Vietnam Television Network, in FBIS-EAS-91-127-S, 2 July 1991, pp. 16-18.

positions should provide an adequate picture of their political and economic ideologies.

On balance, the politburo now appears to consist of fewer hard-liners, but new members are all long-time party apparatchiks and are seen as unlikely to move for radical reform. Do Muoi replaced Linh as General Secretary of the Party, and is not expected to make any drastic economic changes, having been a close working associate of Linh for the last three years. Another factor supporting the status quo theory of Muoi's leadership is his naming of a new Central Committee Advisory Council, to consist of out-going politburo members Nguyen Van Linh, Pham Van Dong, and Vo Chi Cong.<sup>34</sup> It may not be a mere coincidence that this newly established Advisory Council closely resembles the status of Deng Xiaoping in relation to the government in China. Do Muoi's election was viewed with favor in China, which sent its congratulations in the first official communications between those two countries since 1978.<sup>35</sup>

Do Muoi, 74, has been a member of the communist party since 1939 and has moved steadily up the leadership chain. He was elected to the Central Committee in 1960 and to the politburo in 1976. Re-elected to the Politburo in 1982 and 1986, Muoi then became a member of the party Secretariat (1986) and

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<sup>34</sup>Hiebert, "More of the same," and "Do Muoi Announces Advisory Council Members," from Hanoi Vietnam Television Network, in FBIS-EAS-91-127-S, 2 July 1991, p. 18.

<sup>35</sup>Nayan Chanda, "Congress Brings Vietnam Closer to China," Asian Wall Street Journal, 6 July 1991. Sec. A, p. 1.

chairman of the Council of Ministers (1988).<sup>36</sup> Muoi, like Linh, seeks better relations with China and was part of the secret meeting held in Chengdu in September, 1990, aimed at finding a solution to the Cambodian issue.

Second in the party hierarchy is General Le Duc Anh, 71, a member of both the politburo and the secretariat. General Anh, who has been the Defense Minister, is expected to replace outgoing Vo Chi Cong as president and that post will be upgraded to control defense, security, and foreign affairs. General Anh will work with Hong Ha, 63, another member of the secretariat, to conduct the party's foreign policies. Nguyen Manh Cam, 62, replaces Nguyen Co Thach as Foreign Minister and will now be working for Anh and Ha. Cam will not be a member of either the politburo or the secretariat, as was Thach.<sup>37</sup>

Vo Van Kiet, 69, who has been named premier to replace Do Muoi, Dao Duy Tung, 67, who is expected to be named permanent secretary of the secretariat, and General Doan Khue, 68, who will succeed Anh as Defense Minister, are the other three surviving members of the politburo. Kiet is a liberal Southerner and now ranks third in the ruling body. Tung was in charge of party ideology and Khue had been army chief of staff. Tung is also a member of the secretariat.<sup>38</sup>

Vo Van Kiet as premier and prime minister of the National Assembly and Phan Van Khai as his vice-premier offer Vietnam two leading reformers, both

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<sup>36</sup>"VNA Runs 'Short Biography' of Do Muoi," from Hanoi VNA, in FBIS-EAS-91-127-S, 2 July 1991, pp. 18-19.

<sup>37</sup>Murray Hiebert, "Cutting the red tape," FEER, 22 August 1991, p. 11, Hiebert, "More of the same," and "VNA Reports Newly Elected Officials," from Hanoi VNA, in FBIS-EAS-91-127-S, 2 July 1991, p. 19.

<sup>38</sup>Ibid.

with experience as mayor of Ho Chi Minh City and contacts with the West.<sup>39</sup> Premier Kiet has been criticized for lacking the formal education that would allow him better understanding and control of the economic problems which face Vietnam. He is also seen as indecisive and as lacking the courage to fight the conservative opposition.

Phan Van Khai, on the other hand, is a Moscow-trained economist who has also been sponsored by the Harvard Institute for International Development on visits to Indonesia and South Korea to exchange views with economic planners. His running of Ho Chi Minh City for almost ten years, during which he implemented market reforms that have made that city the economic hub of the country, and his ties with both Vo Van Kiet and Do Muoi, make him the heir apparent to Kiet's seat.<sup>40</sup>

Of the seven new members on the politburo, only Nguyen Duc Binh has a record as a consistent hard line supporter. His recent background is one of heading an institute which trains party cadres and he is expected to take over the Central Committee's ideology department. Binh is seen as the strongest advocate for continued state control on the new politburo.<sup>41</sup> This new mix includes five Southerners as opposed to one on the previous politburo and the first ethnic minority, a Tay, to be elected to that body. Nong Duc Manh, 51, the youngest member, as head of the Commission for Nationalities will handle

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<sup>39</sup>Nayan Chanda, "Reformers Head Vietnam's New Cabinet," Asian Wall Street Journal, 15 August 1991, Sec. A, pp. 1 & 8.

<sup>40</sup>Ibid., p. 8.

<sup>41</sup>Hiebert, "More of the same," p.11.

rural areas of the country that have not been helped by the recent economic reforms.

The change which will have the most direct and immediate impact is that of Nguyen Co Thach from his post as Foreign Minister. Thach, who is anti-Chinese and pro-Western, was seen as a hindrance to normal relations between China and Vietnam and a barrier to a solution in Cambodia. He was openly criticized by the central committee for failing to achieve normalization with the U.S. following the 1989 troop withdrawal from Cambodia.<sup>42</sup> Thach was the political protege of the late Le Duc Tho, who was the Vietnamese representative at the Paris peace negotiations in the early 1970's and who was responsible for Vietnam's imperialist policy towards Cambodia from the early 1950's. Thach's conduct of Vietnam's Cambodian policy had antagonized the Chinese; he openly reneged upon an agreement on Cambodia that leaders in Hanoi and Beijing had reached in September 1990. With the events in the Soviet Union spelling death to the Leninist line of their long-time supporters, Vietnam was obliged to seek and have received renewed recognition from China, but the price was dropping Thach from the Foreign Ministry and the politburo.<sup>43</sup>

Thach's replacement, Nguyen Manh Cam, who has been ambassador to the Soviet Union, Hungary, Austria, Iran, and West Germany will have less

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<sup>42</sup>Murray Hiebert, "Changing faces," FEER, 13 June 1991, p. 18.

<sup>43</sup>Stephen J. Morris, "Vietnam Picks Up Its China Card," Asian Wall Street Journal, 4 July 1991, p.1 and "China announces it will normalize ties with Vietnam," SIMN, 2 September 1991, Sec. A, p. 15. Premier Li Peng cited the progress in the Cambodian settlement process as the main reason for the renewed Sino-Vietnamese ties, however, the collapse of Soviet communism have clearly forced these two hard-line governments closer together.

authority, not occupying a seat on the ruling body and will be directed in his mission by Anh and Ha. Many issues decided by the Foreign Ministry will now have to receive approval from the Ministry of Interior and its new head, Bui Thein Ngo. Ngo is a Soviet KGB-trained policeman who has run the state security forces as vice minister of the Interior.<sup>44</sup>

The results of the Seventh Party Congress might well mark a turning point in Vietnam's quest to see the end to the embargo and better overall relations with the West, but not necessarily along the path set out by Washington. Having shed themselves of a number of politburo members who would see Vietnam take more decisive steps in meeting U.S. conditions for ending the embargo, the government has sought to achieve the same results, not by unilateral actions, but through better relations with China. While dealing with the U.S. more directly on the MIA/POW issue on one hand, one of the main conditions for normalization, on the other Hanoi is moving closer to Beijing's views on a settlement in Cambodia; based on Vietnamese acceptance of China's security interests in Cambodia.<sup>45</sup>

The result of this collaboration between the backers of the two main factions in Cambodia, the People's Revolutionary Party of Kampuchea (the government in Phnom Penh backed by Hanoi) and the Khmer Rouge (the strongest of the rebel groups backed by Beijing), might facilitate an end to the conflict which would meet the other main condition the U.S. has set for an end to the embargo and for normalization. However, the alignment of views

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<sup>44</sup>Chanda, "Reformist Head," p.8 and Morris, "Vietnam Picks China Card," p.1.

<sup>45</sup>Nayan Chanda, "China Emerges as Cambodia Peace Broker," Asian Wall Street Journal, 23 July 1991, p.1.

between Hanoi and Beijing might result not in the free elections called for under the U.N. plan, but rather a Cambodia ruled by the coalition of the Supreme National Council, comprised of members from both the Phnom Penh government and the rebel factions (including the Khmer Rouge).<sup>46</sup> If this were to occur, then Cambodia would remain within the communist sphere of influence, tied to the foreign policies and security interests of both China and Vietnam.

The political changes in Vietnam over the last year have indeed been significant. The Seventh Party Congress made far-reaching changes in the party's economic reform movement by electing reform-experienced Southerners to positions of authority in the politburo and the secretariat. The party's political ideology, however, remains unchanged and may have even been reenforced through the rapprochement with China and their hard-line government. The events in the Soviet Union since the coup have acted to further isolate Vietnam as one of the few remaining Marxist-Leninist regimes, forcing them into closer ties with a historical enemy, China. These diplomatic moves could lead to an end of the conflict in Cambodia and to better relations with the West, especially with the U.S. Those same moves could also lead to backlash from other Southeast Asian nations who still fear Chinese and Vietnamese hegemony in the region and who would not be in favor of a solution in Cambodia that falls short of releasing that country from outside influence.

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<sup>46</sup>Ibid. pp. 1 & 20.

What faces this new government in Hanoi is a staggering economic blight. Advancements of the last two years stand to be erased without foreign capital investment. Trade with former partners in the Eastern Bloc and in the Soviet Union is off significantly, resulting in a short-fall in raw materials and a surplus of domestically manufactured goods. Reforms in banking, customs, and other financial services still have not caught up with demand. Even though individual economists at the World Bank, the IMF, and the Asian Development Bank (ADB) urge renewed loans and assistance to Vietnam, the U.S.-led opposition continues to prevent it.<sup>47</sup> These are but a sample of problems which face the Vietnamese government in the immediate future. The following section of this chapter will focus on the current economic situation and detail the depth and nature of the problems.

## B. VIETNAM'S ECONOMIC STATUS

The Vietnamese have suffered two major, ongoing disturbances to their economy; the drain of economic resources away from development within the civilian sector in order to support their million-man army and the international economic boycott, led by the U.S., used as a form of punishment for their invasion of Cambodia in 1978. Though not entirely isolated from non-communist foreign investment,<sup>48</sup> the Vietnamese came to rely almost exclusively on the Soviet Union and Eastern Bloc countries as trading partners

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<sup>47</sup>Nayan Chanda, "Economist See Threat to Hanoi's Reforms," Asian Wall Street Journal, 19 August 1991, pp. 1 & 5.

<sup>48</sup>Murray Hiebert, "Waterfront woes," FEER, 7 March 1991, p.46.

and donors of aid.<sup>49</sup> The collapse of communism in Eastern Europe and the economic collapse within the Soviet Union has reshaped those relationships, now requiring Vietnam to trade in hard currency at world market prices and to negotiate loans instead of grants or freely given aid.

Vietnam is moving, both politically and economically, towards the resolution of those two overriding situations. With their troops out of Cambodia and talks with the Chinese reducing tensions along the northern border, a substantial number of service personnel-perhaps as many as one half of all those in uniform-were to have been released from armed service by the end of 1990.<sup>50</sup> As mentioned earlier, this has resulted in massive unemployment. The Asian Development Bank (ADB) estimates the unemployment at 20 percent and warns that it soon might reach socially intolerable levels.<sup>51</sup>

Another factor thwarting economic recovery in Vietnam is the one found in every communist government still in existence and indicated in the previous section, that of the conflict between remaining hard-line communists who tenaciously cling to central controls backed by ideological politics, and the reformers, struggling to move the economy towards a free market without the

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<sup>49</sup>Murray Hiebert, "Deeper in the red," FEER, 21 February 1991, p.46.

<sup>50</sup>Vietnam-Political / Social Affairs, "Asia 1991 Yearbook, (Hong Kong: Review Publishing Company Ltd. 1990), p. 236. A report of the Vietnamese Central Committee's Military Commission on the 1991-1995 national defense tasks claims that in the last four years more than 600,000 troops have been discharged including 200,000 salaried military personnel. "Military Commission Examines National Defense," as reported in Hanoi TAP CHI QUOC PHONG TOAN DAN, in FBIS-EAS-91-143, 25 July 1991. See also Murray Hiebert, "Defeated by victory," FEER, 13 June 1991, pp. 24-27.

<sup>51</sup>Asia 1991 Yearbook, p. 236.

required institutions or capital. To see the effects of this conflict and that of the ongoing embargo, this examination of the economy will be divided into demographics, economic planning, and a sector by sector analysis.

### 1. Demographics

Vietnam is the world's third largest communist country, behind China and the Soviet Union. Preliminary census results from April 1989 show a population of 64.4 million in a country of 329,566 square kilometers. That works out to a population density of 195 per square kilometer, one of the highest in Asia.<sup>52</sup> The reason for this high figure is a combination of urbanization, mostly in the South where Vietnam's largest city, Ho Chi Minh, has grown to over 3.1 million, and topographies. In Vietnam, only one-third of the land in the South and less than one-sixth of the land in the North is lowland and capable of sustaining agriculture and population increases. The remainder is highlands and mountains that are not easily accessible to most of the country's economic centers.<sup>53</sup>

The latest figures on the labor force are official estimates from 1987, where the total economically active population numbered just under 28 million<sup>54</sup> (there are other estimates which place this figure at over 31.2 million as of 1985, highlighting the difficulty in obtaining reliable data<sup>55</sup>). The

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<sup>52</sup>"Vietnam-Statistical Survey," The Fareast and Australasia 1991, (London:Europa Publications Limited 1990), p.1105.

<sup>53</sup>Vietnam: A Country Study, (Washington D.C.:U.S. Government Printing Office for the Secretary of the Army 1989), pp.84-90 and "Vietnam-Physical and Social Geography," The Fareast and Australasia 1990, (London:Europa Publications Limited 1989), p.1025.

<sup>54</sup>The Fareast and Australasia 1991, p.1106.

<sup>55</sup>Vietnam-A Country Study, p.145.

breakdown of that officially reported number, 28 million, had 20.4 million in agriculture and forestry, or about 73 percent of the work force. The remainder was broken down as follows: manufacturing, 3 million; administration and commerce, 3.2 million; transportation and communications, 0.47 million; and construction, 0.83 million.

Unemployment remains one of Vietnam's most pressing problems, with over 20 percent of the work force, 6 million, unemployed.<sup>56</sup> The reasons for the unemployment and a by-sector breakdown are good indicators of where the economy is weakest. Unemployment in the agricultural sector was very small, while unemployment in the urban or non-agricultural sectors exceeded 40 percent. About one-third of those entering the work force are going to urban areas and of those, only 15 to 20 percent are finding work. Consumer goods flooding in from Singapore, Thailand, and China have hurt Vietnamese industry, causing the loss of as many as 500,000 jobs. Demobilized soldiers and more than 350,000 workers let go from state-run enterprises now required to at least break even contributed to the problem.

To date, Vietnam has not been able to exploit all of its resources efficiently, whether due to political or economic shortcomings or a combination of both. The next section will review the five-year plans that have governed the Vietnamese economy in the past and the one which will be responsible for the success or failure of the economy in the future.

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<sup>56</sup>Steven Erlanger, "Its Gains Dissipated, Vietnam Tries to Salvage Its Economy," New York Times, 17 February 1991, Sec.F, p.12. See also "Vietnam-Economy/Infrastructure," Asia 1991 Yearbook, p.239 and Vietnam-A Country Study, p.145.

## 2. Vietnamese Economic Planning

Like other centralized, communist economies, state planning is the key characteristic of the Vietnamese economic system. The year 1990 saw the end of the Fourth Five-Year Plan (1986-1990) and the seventh party congress, originally scheduled to work out the next five-year plan in May 1991, was pushed back until late June. Inter-party disputes over political stability or economic reform prevented the adoption of the official political report of the Vietnamese Communist Party, a working document laying out the agenda for the seventh party congress. Conservatives charged the document with abandoning communist ideals and then Party Chief Nguyen Van Linh, in a 28-page letter circulated to the party, attempted to explain the conclusions reached and the reasons for further reforms.<sup>57</sup> This pressure on reforms can be traced back to the first plan and has been a factor in each plan since.

Vietnam's planning began before the country was reunited, with the First Five-Year Plan (1961-1965) for North Vietnam. This plan was to have initiated the Vietnamese on the path to 'socialist transformation'. The third Party Congress in 1960 stressed the development of heavy industry, however, the war so disrupted agriculture that the crisis caused a reevaluation of priorities and industry was then to 'serve agriculture'.<sup>58</sup> The war also prevented the start of the next five-year plan, with the economy reacting to the bombing with greater decentralization, moves out of the larger urban areas, and establishment of small-to-medium enterprises in the provinces.

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<sup>57</sup>Murray Hiebert, "Rewriting the future," FEER, 7 March 1991, p.28.

<sup>58</sup>"Vietnam-Economy," The Fareast and Australasia 1991, pp.1097-1098.

The Second Five-Year Plan (1976-1980) was the first National Plan because it incorporated the newly united South. The principle goals of this Plan were the development of agriculture and light industry; each was to receive an equal share of investment. Heavy industry was to support agriculture and in turn, agriculture's rapid increase in production would then bring in export currency to be plowed back into industry. The Plan encountered two problems; disastrous weather which prevented agriculture from meeting its goals, and foreign investment which was severely curtailed when the embargo was put in place in 1978. The war in Cambodia and the open hostility with China resulted in 40 percent of the government's budget going to the military, further draining investment capacity. The net result was that the Plan's targets were not met, they were revised, or were abandoned all together.<sup>59</sup>

The Third Five-Year Plan or second National Plan (1981-1985) got off to a slow start because of the failure of Vietnam's partners in the Council for Mutual Economic Assistance (CMEA) to confirm their aid commitments. Though the aim of this Plan was again to focus on agriculture, consumer goods industries, energy, and exports, during the first three years heavy industry received the greatest share of investment because of ongoing projects.<sup>60</sup>

It was during this Plan that the structure of nationalized and collectivized sectors began to be changed. 'Household responsibility' was

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<sup>59</sup>Vietnam-A Country Study, p.150 and "Vietnam-Economy," The Fareast and Australasia 1991, p.1098.

<sup>60</sup>"Vietnam-Economy," The Fareast and Australasia 1991, p.1098.

established (very similar to the programs in China<sup>61</sup>) where families could contract to farm land owned by the collective and if they produced a surplus over their production quota they would be allowed to sell it on the open market or to the government at a "negotiated price." This system provided the incentive needed and production rose, but corruption followed and by 1988 the government was forced to remove central controls at the district level.

The effort to control the capitalist sectors of the economy either through single export enterprises controlled by the state or through state-private joint enterprises (a form of collective) finally was recognized as a failure, leading to even more decentralization in planning and the reduction of government subsidies. These were the first real steps towards a true market economy.<sup>62</sup>

Food production, consumer industries, and exports continued as the priorities of the Fourth Five-Year Plan (1986-1990). Targets for increased grain production were set (Vietnam became the third leading rice exporter, behind the U.S. and Thailand in 1989), priority in using foreign exchange was given to imports of raw materials needed to produce domestic consumer goods, and the government sought a 70 percent increase in exports to bring in the needed foreign exchange.<sup>63</sup>

Reform policies have had positive results in some areas of the economy in the last two years, especially since the stabilization program was

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<sup>61</sup>Harry Harding, China's Second Revolution-Reform After Mao, (Washington D.C.:The Brookings Institution 1987), p.72 and 88.

<sup>62</sup>Vietnam-A Country Study, pp.152-153.

<sup>63</sup>*Ibid.*, pp.153-154.

begun in early 1989. This program was in response to the near hyper-inflation that occurred because of unbalanced reform policies.<sup>64</sup> There are still areas of extreme economic depression and the loss of Soviet aid combined with the requirement to trade at world market prices have reversed some of the positive trends. The next section will address each sector individually and how it stands in the current economy.

### 3. The Vietnamese Economy by Sector

The true beginning of Vietnam's reform movement began with the Sixth Party Congress in 1986 and Nguyen Van Linh's announced program of "*doi moi*" (renovation). Milestones such as 1987's liberal foreign investment laws and 1989's enacted monetarist policies following the IMF's consultative visit indicate that *doi moi* is going much further than the Soviet's perestroika.<sup>65</sup> According to the Asian Development Bank (ADB) Vietnam's GDP growth rates show the effects of both economic liberalization and the continuing structural problems. GDP growth rates for 1981-1984 averaged 7 percent, then fell to 2.5 percent in 1987. The combination of *doi moi* reforms and austerity measures have sparked a rebound, with 1988 showing a 5.9 percent growth and 8.2 percent in 1989.<sup>66</sup> Each sector of the economy will now be examined for its effects on the economic reform in general.

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<sup>64</sup>Chanda, "Economists See Threat," p. 1. A confidential World Bank study has shown that the lack of foreign capital is already beginning to effect the economy, with a return to near-hyperinflation. Inflation for the first quarter of 1991 has reached a 100% annual rate.

<sup>65</sup>Neil Wilson, "Enter a new dragon?" The Banker, April 1990, pp.34-35.

<sup>66</sup>"Vietnam-Economy," The Fareast and Australasia 1991, p.1098.

### *a. Agriculture*

Agriculture accounts for two-fifths of total output and employs two-thirds of the labor force. Vietnam is still an agricultural economy based on paddy rice production. Foodgrain production for 1989 was 21.4 million tons (up from 19 million in 1988) of which rice production accounted for approximately 18.5 million tons. Agriculture receives 20 percent of state investment, going mainly for irrigation and flood control. Industrial crops in order of importance are; rubber, tea, coffee, coconut, and sugar cane.<sup>67</sup>

The upsurge in rice production has led to increased exports, 1.4 million tons in 1989 and a projected 2.5 million tons in 1990.<sup>68</sup> Another 300,000 tons was exported over the border with China by private traders. All total, rice exports brought roughly US\$315 million in 1989 or 20 percent of total export earnings.<sup>69</sup> Irrigation of a greater percentage of the land, permitting a second crop per year, and new high-yield varieties of rice are the primary factors in the increase. The wider use of fertilizers, still half the average of developing countries and one of the lowest in Asia, was nonetheless a factor, but one that has been adversely affected by Soviet cut-backs. Until 1990 the Soviets, as sole outside source, supplied Vietnam with 1.8 million tons of fertilizer. Any shortfall in Soviet deliveries will now have to be purchased on the international

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<sup>67</sup>"Vietnam-Economy/Infrastructure," *Asia 1991 Yearbook*, pp.239-240 and "Vietnam-Economy," *The Fareast and Australasia 1991*, pp.1098 and 1106-1107.

<sup>68</sup>Rice production in Vietnam for 1991 fell by a million tons due to bad weather, which in turn lowered exports to 800,000 tons compared to 1.7 million in 1990. Vietnam depends on rice exports for a majority of its foreign exchange reserve used to purchase raw materials. Chanda, "Economists See Threat," pp. 1 & 5.

<sup>69</sup>*Asia 1991 Yearbook*, p.239.

market. Hard currency requirements for future imports, however, could easily be made up with increased rice production. A more widespread and concentrated use of fertilizers will increase yields to the extent that the additional costs will be covered by a fraction of the increased exports.<sup>70</sup>

Another legacy of the continuing war in Indochina may be future ill effects on Vietnam's Mekong delta rice producing region. The failure to develop a comprehensive plan for the use of the Mekong river, from Laos through Cambodia and Thailand to Vietnam, may cause delta farmers to loose useful land. The flooding with saltwater, a tidal condition in the low Delta region, and high acid content because of too little water flow from the Mekong River during the dry season takes otherwise fertile land out of production. Improper up-river management is to blame for this reduced flow which also allows tidal conditions to inundate low-lying delta rice fields with sea water. This same condition prevents enough fresh water from flushing the acid out of the soil. Over 3.1 million hectares of land could be affected, with disastrous consequences.<sup>71</sup>

In order for agriculture to continue to modernize and become more efficient, the state's macro-economic stabilization program must succeed. Control of inflation, price reforms, market-oriented trade policies, and institutional reforms are the main issues in a long list of target reforms needed

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<sup>70</sup>Ibid., p.239 and The Fareast and Australasia 1991, pp.1098-1099. The doubling of fertilizer use would require an additional US\$250 million per year, but US\$100 million in fertilizer imports would produce US\$400 million in additional rice output on the international market. This information was obtained from a confidential World Bank source.

<sup>71</sup>Murray Hiebert, "Muddy waters," FEER, 21 February 1991, p.28.

to bring confidence to the sector and allow farmers to be able to switch to cash crops while maintaining their ability to buy food at stable prices with currency instead of by barter.<sup>72</sup>

### *b. Industry*

Unlike in the agricultural sector where reforms have led to great increases in production and exports, the industrial sector, particularly heavy industry, continues under state control and is further hampered by antiquated technology and the inefficiencies of central planning. Though occupying the primary position under state planning for investment and development as in other communist countries, heavy industry has suffered from Vietnam's wartime economic strategies. The decentralization program and redirection of resources to the military, combined with the systemically weak five-year plans and even poorer management act to stagnate the sector.<sup>73</sup> The embargo's prohibition of investment and aid has also helped to prevent any appreciable modernization of heavy industry and the required infrastructure improvements.

Industry accounts for 30 percent of GDP and employs 14 percent of the work force, compared to 40 percent of GDP and 73 percent of the work force for agriculture. This pattern is comparable with other developing countries. In Vietnam, industry is divided into three sub-sectors based on the extent of state ownership and control. Heavy industry ( steel, machine tools, chemicals, fertilizer, cement, and paper) is almost totally state-owned, but

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<sup>72</sup>Confidential World Bank source.

<sup>73</sup>Vietnam-A Country Study, pp.159-161.

recent reforms have shifted enterprise management to the firm level. The second level of enterprises are the locally owned manufactures. These are publicly owned and managed by People's Committees from the provinces. They are allowed to operate outside of state planning at market prices. The third level are the non-state or private firms and collectives. (Both the second and third level enterprises are considered light industry-textiles, garments, footwear, plastics processing, ceramics, bicycles, etc.) This sector accounts for three-fourths of the total manufacturing employment and are comprised mainly of family operations. Not under any state planning, they account for one half of total sector output and are required to pay a turnover tax of 10 percent.<sup>74</sup>

The effect of this three-level structure has been that the inefficiencies in the state-owned sector and the government's monetary policies have caused serious imbalances that in turn affect the non-state sector. Investment priority, favorable tax rates, and subsidies continue to the state-owned enterprises, private firms lack access to resources and capital, and inflation caused by poor policies erodes the ability of small businesses to compete with cheap illegal imports from China and Cambodia.

Reforms initiated in 1989 were aimed at these structural deficiencies and they have had an adverse affect on the state sector, which now has to operate according to market forces. On the other hand, the private sector is seen as leading the economic resurgence and is expected to absorb

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<sup>74</sup>Confidential World Bank source.

the increasing labor force. Further reforms and a more cohesive legal and banking system are needed to insure continued growth.<sup>75</sup>

*c. Internal Commerce*

As in other countries which have been attempting to shift from state-controlled to market economies, Vietnam has developed an 'unofficial market' or black market. This is the patterned response to the continued attempts by Hanoi to collectivize all levels of commerce in the late 1970's. These plans by the government so disrupted business that thousands of ethnic Chinese traders were forced to flee, a factor in the open hostilities between Vietnam and China in 1979. The plan also forced many middle class Vietnamese to seek asylum outside their country.<sup>76</sup>

More recently, the unofficial economy has been inundated with contraband from China and Cambodia, the latter accounting for two-thirds of the trade. The flood of goods over the borders has seriously hurt Vietnamese industry, already struggling without government subsidies and Soviet aid. One source put the cost to the Vietnamese economy during the first part of 1990 at 26 tons of gold and US\$258 million, not including agricultural products.<sup>77</sup>

There are two main factors involved and the government is at the center of both. A significant part of the smuggling is carried out by government agencies, in government vehicles, and in open cooperation with privateers. The root cause may be the lack of the afore-mentioned legal

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<sup>75</sup>Ibid.

<sup>76</sup>Vietnam-A Country Study, p.163.

<sup>77</sup>Murray Hiebert, "Smugglers snared," FEER, 29 November 1990, p.51.

system and the inability of the government to keep pace with its economic reforms.

*d. Natural resources*

Possibly the brightest area on Vietnam's economic horizon is the abundance of natural resources within the country and just off shore, as in the case of the very substantial oil reserves. Vietnam has the largest reserve of coal in Asia, estimated at 20 billion tons. Though the infrastructure, damaged in the war with the U.S. and never redeveloped because of lack of funds, hinders mining efforts, foreign investors like Australia's BHP have signed on to conduct feasibility studies on the possibility of developing several coal-mining sites in northwest Vietnam.<sup>78</sup>

Vietnam's oil industry is undergoing a mini-boom. Already the joint Soviet-Vietnamese company Vietsovpetro is extracting 50,000 barrels a day from the Bach Ho field, initially discovered by Mobil of the U.S. in 1974. The Soviet economic crisis has caused them to relinquish four and one-half of the seven blocks granted for exploration in the same area as the Bach Ho field, opening the way for foreign companies to begin bidding for drilling rights.<sup>79</sup> These agreements are contingent on the embargo being lifted. A recent study estimates total reserves at between 1 and 2.5 billion barrels, putting Vietnam in

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<sup>78</sup>Murray Hiebert, "Shaft of light," FEER, 11 October 1990, p.71.

<sup>79</sup>"Roll Out the Barrel," FEER, 14 February 1991, p.9.

the same league with Brunei and Australia,<sup>80</sup> and will eventually bring Vietnam independence from foreign imports of petroleum products.<sup>81</sup>

*e. Foreign Trade and Aid*

As already mentioned earlier in this paper, Vietnam's main obstacles to improving its economy, apart from the systemic problems associated with a communist government, have been war-related expenses and the international embargo. The two have combined to limit investment in export enterprises, especially in the convertible currency markets, and to maintain a level of imports that has been adding to the current account deficit. The withdrawal of its forces from Cambodia in 1989 and the subsequent overall reduction of forces by one half will greatly reduce the 40 percent of the budget the government was spending on the military.<sup>82</sup> Though the U.S.-led embargo continues to prohibit Vietnam from receiving aid or loans from the world's major lending institutions (IMF, WB, and the ADB), many countries have substantial trade and investment with the Vietnamese. To examine this facet of the Vietnamese economy, the foreign trade and aid section will be further sub-divided into Foreign Currency, Direction and Composition of Trade, Foreign Investment, Foreign Assistance, and Overseas Remittances.

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<sup>80</sup>Murray Hiebert, "Vietnam's oil promise," FEER, 6 December 1990, p.52.

<sup>81</sup>Chanda, "Economists See Threat," pp. 1 & 5. The author cites a leveling off of crude oil production, which rose from 680 million tons in 1988 to 2.5 million tons in 1990. However, no new investment in Vietnamese oil fields has been made for two years and any technological assistance is contingent upon an end to the embargo.

<sup>82</sup>Hiebert, "Defeated," p. 26. The costs of transition of half of the military to civilian life have continued to be a drain on government finances, and it will take a few years before the former soldiers will help increase production to offset their costs.

(1) Foreign Currency. Vietnam has a large external deficit, most of which is with the CMEA in non-convertible currency. Autarkic economic policies and failure to promote export development and efficient import substitution have been the sources of the deficit. Using the IMF cross exchange rate for 1989 of 2.55 transferable rubles (TR)/dollar, between 1985 and 1988 Vietnam's non-convertible deficit grew from US\$283 million to US\$518 million. Their convertible deficit, US\$208 million in 1988, reflects the small amount of trade in that area due to the embargo. Total deficit for 1988 was US\$726 million or 10 percent of GDP.<sup>83</sup>

High levels of external financing from the CMEA has made it possible for Vietnam to finance their deficit in the non-convertible area. This financing began to dry up in 1989 and the deficit also declined by 42 percent. An overvalued exchange rate was the second main factor in the convertible deficit and that too has been recently addressed with the 1989 devaluation and subsequent adjustments to keep pace with inflation. This has acted to increase exports, up from US\$490 million in 1988 to US\$968 million in 1989 and the resultant drop of 50 percent in the overall current account deficit to US\$341 million (4.9% of GDP).<sup>84</sup>

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<sup>83</sup>Confidential World Bank source. More recent figures have been released by the United Nations Industrial Development Organization (UNIDO) in their Industrial Development Review Series: Vietnam, Industrial Policy Reform and International Co-operation, 17 January 1991. These figures show the total external debt at \$9,703 million, of which \$6,484 million is in non-convertible currencies and \$3,219 million is in convertible currencies. Vietnam's current account balance is -\$1,086 million. These figures are from 1988.

<sup>84</sup>Ibid. The US\$341 million current account deficit is in convertible currency, another \$6,484 million is in non-convertible currencies.

Vietnam is one of the most heavily indebted countries, owing over US\$7 billion in 1988 or about 100 percent of its GDP. The debt is split almost equally between convertible (\$3.2 billion) and non-convertible (\$3.8 billion).

(2) Direction and Composition of Trade. Vietnam's foreign trade up to 1989 has been dominated by the Soviet Union and other Bloc countries, accounting for over 50 percent of total trade. Two reasons can be found for this pattern: the embargo and the policies that placed emphasis on exports to the non-convertible area. As the Bloc countries, now no longer in the CMEA, increase their trade with Western Europe, Vietnam's share of their markets will fall due to the relatively low quality of products.

With the recent changes made to bring their export sector more in line with the world market, Vietnam's overall trade has increased in the convertible area despite the embargo. This, however, has a limit because of the low level of investment from Western institutions still conforming to the embargo. Total exports for 1989 were US\$976 million in the convertible area and 844 million of transferable rubles. Imports for 1989 were US\$645 million and 1,798 million respectively. A closer look at these figures shows that there was a trade surplus in convertible currency goods for 1989, while there was a huge trade deficit in non-convertible currency goods. This is reflective of past policies directing the majority of trade towards the CMEA countries who offered much better terms than did countries trading in the U.S. dollar.<sup>85</sup>

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<sup>85</sup>Industrial Development Review Series: Vietnam, pp. vii-ix & 21-22.

(3) Foreign Investment. The liberal foreign investment law, introduced in 1987, has led to an increase in investment and the 1989 reforms of the interest and exchange rates has made Vietnam much more attractive for foreign firms.<sup>86</sup> New licences to foreign investors have been issued, 105 in 1989, but the number of businesses actually started is still unclear. The figures for actual dollars invested is also unclear. Of 78 licences issued by mid-year, data was available for only 65 and it showed that of the total investment, \$636.8 million, only \$373.15 million had come from foreign investors.<sup>87</sup>

### INVESTMENT IN VIETNAM

By Country-Total \$373.15m		By Sector-Total \$636.8m	
United Kingdom.....	(6) 30.01%	Oil and Gas.....	(6) 45.23%
France.....	(6) 21.44%	Agriculture.....	(7) 19.16%
Netherlands.....	(1) 19.03%	Seafood.....	(4) 16.02%
India.....	(1) 10.99%	Tourism.....	(14) 7.77%
Australia.....	(5) 9.08%	Telecom.....	(7) 6.23%
Hong Kong.....	(19) 5.63%	Light industry.....	(14) 3.14%
Thailand.....	(4) 1.11%	Elec/Mins/Eng.....	(11) 2.11%
Overseas Viets.....	(14) 0.94%	Others.....	(2) 0.35%
South Korea.....	(2) 0.72%	(Figures in brackets indicate number of projects.)	
Singapore.....	(2) 0.54%		
*Others.....	0.51%		
*Italy.....(1) 0.17%			
US.....(1) 0.16%			
Czech... (1) 0.15%			
Japan.....(1) 0.03%			

Table 1<sup>88</sup>

<sup>86</sup>Neil Wilson, "Enter a new dragon?" p.35.

<sup>87</sup>Ibid., p.38.

<sup>88</sup>Ibid., p.34 The source for the data used in this table was The Banker.

Investment by country and by sector give a clear picture of the economic scene in Vietnam and also indicate the extent of compliance with the embargo.

Over 2000 foreign companies sent delegations to Vietnam between December 1987 and December 1989, one-third Japanese. Only one of the 105 licenses issued went to a Japanese firm, but this will change if and when MITI drops its compliance with the embargo.<sup>89</sup>

(4) Foreign Assistance. In 1976 Vietnam joined the IMF, World Bank, and Asian Development Bank based on South Vietnam's past membership. In 1977, the IMF loaned Vietnam \$85 million to cover trade deficits, but turned down a \$150 million request in 1982 because of the lack of structural reforms. The WB provided \$60 million in credit for an irrigation project in 1978 and has been prevented from further assistance by the embargo.

The bulk of aid has come from communist countries, the Soviets providing the largest percentage. Excluding military aid, which since 1980 has run \$1,000 million per year, the Soviet Union increased its development aid from \$1,000 million in the mid-1980's to \$2,500 million after 1986.<sup>90</sup>

Currently Vietnam owes the IMF \$140 million in back loans, for which it secured a deal with a consortium of European banks to refinance. The deal fell through in 1990 under pressure by the U.S. to maintain the

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<sup>89</sup>"Peace Dividend," FEER, 24 January 1991, p.9.

<sup>90</sup>"Vietnam-Economy," The Far East and Australasia 1991, p.1104.

embargo. Vietnam has since made substantial progress in clearing its foreign debt with an eye towards meeting IMF conditions for new assistance.

Because of the cutbacks in Soviet aid, total foreign assistance to Vietnam dropped by 63% in the first half of 1990. In 1991, Moscow will provide Vietnam with US\$100 million worth of credits and grants worth another US\$10 million. These figures are compared to those for the 1986-1990 Five-Year Plan in which the Soviets offered Rbl 8.7 Billion in credits, with Rbl 7 billion being spent.<sup>91</sup> These cutbacks will remain the case in the near future and added to the new condition of trading at world market prices in hard currency will make it very difficult to reduce the foreign debt.

(5) Overseas Remittances. Informal aid in the form of packages and remittances from overseas Vietnamese is an important source of goods and hard currency. In the mid-1980's Western products valued at US\$70 million annually were received by customs officials in Vietnam, and these brought in between US\$10 and US\$20 million in customs revenue alone. What's more, over US\$100 million in annual foreign exchange earnings were remitted by the overseas Vietnamese.<sup>92</sup>

*f. Finance*

The budget, money supply, inflation, prices and wages, and the banking system of the Vietnamese will be examined in this section. Much of Vietnam's economic hardships have been the result of imbalanced and poorly managed budgetary policies which allowed inflation to reach 800 percent in

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<sup>91</sup>Murray Hiebert, "Deeper in the red," FEER, 21 February 1991, p.46.

<sup>92</sup>Vietnam-A Country Study, p.178.

1988 and which has led to the reforms in the valuation of the dong and in interest rates.

(1) Budget. Government revenue in 1988 (in millions of dong) was 1,617,000 with expenditures of 2,684,000, producing a deficit of 1,067,000. The 1989 budget pegged revenues at 2,890,000 and expenditures at 4,390,000, leaving a 1,500,000 deficit. As a percent of GDP, 1988 revenue was 11.4 and 1989 forecast was 9.8. Total expenditure as a percent of GDP for 1988 was 19 and for 1989 it was 14.8. The deficits were 7.7 percent in 1988 and 5.2 percent in 1989.<sup>93</sup>

Tax revenue was expected to more than double between 1988 and 1989, the largest increase coming in the non-agriculture cooperative and private sector-showing the strength of that sector and the new emphasis on light industrial production. Revenue from the state sector were also forecast to increase, but by far less than the other sectors.

In expenditures, wage and salaries and operating expenses were the two areas that were expected to see enormous increases. An over 400 percent increase in wages was expected in 1990.

(2) Money Supply. Growth in credit and money supply are the prime factors in Vietnam's excessive inflation rate. Demand for credit has increased because the government has been unable to mobilize resources to cover its expenses, which it meets by borrowing from the banking system and through increased transfers from public enterprises that are not supported by enterprise income. The reorganization begun in 1986 and accelerated in 1987 with new monetary policies aimed at controlling the money supply and credit

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<sup>93</sup>Confidential World Bank source.

demand, were based on a restructuring of the banking system. These reforms have not gone far enough to relieve the demand for credit being met by the banks; in 1988 the money in circulation rose two and a half times faster than planned.

In 1989 two areas of monetary reform saw important advances, the control of reserve money and in interest rates. Levels for reserves were set and punitive measures were enacted to limit overdrafts by the branch banks. Interest rate structure received the most significant changes, now at levels that are positive in real terms. The two immediate results from these reforms were that inflation was brought under control and the increase in money slowed to 28 percent early in 1989 compared to 350 percent for 1988. Though these reforms have had a positive effect, the large budget deficit continues to place pressure on the banking system to extend credit to the government and reinduce the same problems that were present before reforms were begun.<sup>94</sup>

(3) Inflation. As mentioned above, the government budget deficit, which leads to increases in credit and money supply, is the main cause of inflation in Vietnam. Monetary reforms have acted to reduce inflation, but until the government can substantially reduce its deficit and enact a restructuring of its revenue-producing enterprises-that is the reduction of reliance on state-owned enterprises to provide revenue while they continue to receive the bulk of capital expenditures.

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<sup>94</sup>Confidential World Bank source.

The impact of the loss of Soviet aid can not be underestimated, for it affects the budget deficit and every sector that has been receiving goods at subsidized prices. The reforms had brought inflation down to 3 percent a month during much of 1990, but were back to 8.8 percent by year's end and are now 13.2 percent.<sup>95</sup> There are estimates that inflation could again reach 400 percent a month during 1991.

(4) Prices and Wages. One of the reforms enacted in 1986 was the decontrol of prices and combined with the stabilization measures taken in 1987, it has had positive results. Shortages of consumer goods disappeared and shortfalls in rice production were turned into an export surplus. Price decontrol was the element needed to make reforms like decentralization of control and removal of restrictions on the private sector begin to really work. And overall activity in the private sector is showing substantial growth.

The area most affected by inflationary pressures in wages. The government has increased expenditures on wages dramatically in 1988 and 1989, even during a time of increasing deficits. This measure was needed to keep the economy from collapsing under the weight of 800 percent a month inflation.

(5) Banking. The single most needed reform, regardless of the source quoted, is in the banking system. As mentioned before, reform has taken place, however, without deeper structural changes the banking system will not be able to handle a market economy. Consumer confidence in the

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<sup>95</sup>Murray Hiebert, "Deeper in Red," p.46 Nayan Chanda, as previously noted, writes that inflation for the first quarter of 1991 has reached a 100% annual rate. "Economist See Threat," p. 1.

banking system is nil, a result of the collapse of credit cooperatives in 1990 which cost the Vietnamese Dong 114 billion.<sup>96</sup>

The State Bank, the central bank of the government, was restructured in 1988 into the State Bank and four specialized banks; the Foreign Trade Bank, the Agriculture Development Bank, the Bank for Construction and Investment, and the Industrial and Commercial Bank. One privately-owned bank has also been allowed to open, the Bank of Trade and Commerce in 1989 backed by well-placed private sector member from Ho Chi Minh City.<sup>97</sup> These reforms will test the ability of the government to reduce its deficit while allowing continued progress towards a total market economy.

#### *g. Transportation and Communications*

Transportation infrastructure development has been an ongoing program since the end of the war with the U.S. and reunification of the country. Railroads, roads, and bridges, all of which were primary targets during the war, have received improvement or replacement. Though official figures are difficult to access and are often contradictory, railroads have been increased by as much as 2000 kilometers, roads by as much as 3800 kilometers, and dozens of bridges were built during the 1980's. Most of the construction has been with Soviet assistance or by a French development-aid team.<sup>98</sup>

Vietnam's ports have also undergone renovation since the war. Haiphong, Saigon Port in Ho Chi Minh City, and Da Nang are the three largest

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<sup>96</sup>"Vietnam-Economy/Infrastructure," Asia 1991 Yearbook, p.239.

<sup>97</sup>Neil Wilson, "Enter a new dragon?" p.37.

<sup>98</sup>Vietnam-A Country Study, pp.182-183.

and there are twenty-three smaller ports. The ports will still need a great deal of investment capital to keep pace with an increase in foreign traffic when the Cambodian issue is settled, but a joint venture between a Vietnamese National Maritime Group and the French Compagnie Generale Maritime, jointly called Gemartrans, has already revolutionized the transport industry with the introduction of container-shipping service. Saigon Port and Singapore were linked in 1989 and Haiphong to Hong Kong in 1990.<sup>99</sup>

Telecommunications is another sector seeing an increase in foreign investment and technology. In late 1990, an Australian company, Overseas Telecommunications International (OTCI) signed a ten-year contract worth US\$80 million to upgrade Vietnam's international telephone system. With their Vietnamese partner, the Directorate-General of Posts and Telecommunications, they together expect to see a return of over US\$500 million during the life of the contract. OTCI has already installed two satellite earth stations, one each in Hanoi and Ho Chi Minh City. A French company, Alcatel is installing new digital switching systems in Vietnam's northern provinces, linking them to Hanoi and Ho Chi Minh City. Other plans are underway to link the two largest cities by fiber optics, but technical and financial difficulties are slowing the project.

Despite continued economic policy weaknesses; in banking, currency control, finance, bankruptcy laws, and in foreign investment regulations and by Hanoi's continued support of a state owned sector--mostly in heavy industry which still receives preferential treatment in capital

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<sup>99</sup>Murray Hiebert, "Waterfront woes," FEER, 7 March 1991, p.46.

investment and in taxation<sup>100</sup>--Vietnam is beginning to work its way out of its economic stagnation. Excessive bureaucracy, jurisdictional disputes among officials and institutions, and competition between local and central government for control of the growing foreign investments are three of the most difficult problems now facing outside investors.<sup>101</sup> But even these significant hurdles have not deterred the growth of overall investment in Vietnam. The positive side to investing in Vietnam: the natural resources, coal, oil, rice, rubber, and coffee; a cheap, disciplined labor force; and the potential consumer market of 67 million people is beginning to outweigh the negatives mentioned earlier. Total investment approvals for the first half of 1991 have already surpassed those for all of 1990 when US\$600 million worth were licensed. The size of investments has also risen, from US\$1 million in 1988-89 to more than US\$10 million this year. Total approved investment projects since 1988 now stand at 273 with a value of US\$2.1 billion. Of these, US\$400 million have been implemented.<sup>102</sup>

Some important trends are beginning to appear in the economic statistics. The majority of investment, nearly two-thirds, is in the south and the rest is in coastal areas, avoiding the infrastructure problems which continue to plague the interior. Taiwan has become the largest foreign investor and Hong Kong, fourth in total investment, now has the largest number of projects with 68. Japan is replacing the Soviet Union as Vietnam's largest trading partner,

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<sup>100</sup>Confidential World Bank Report

<sup>101</sup>Murray Hiebert, "The rise of Saigon," FEER, 5 September 1991, pp.62-64.

<sup>102</sup>*ibid.*

but remains limited by Washington's pressure to honor the embargo. Overseas Vietnamese have also been granted 11 licenses for projects worth US\$24 million.<sup>103</sup>

With changes in the political leadership moving even more strongly towards a free-market economy (despite the socialist rhetoric) and considering the increased European and Asian investment in Vietnam, one fails to comprehend the logic behind continuing the embargo and preventing American companies from competing for a share of the market. For an administration which rarely has failed to champion the business sector above all others, this policy clearly stands at odds. An example of how this policy fails to support other administration policy goals, specifically in energy, can be seen in the call by Mobil Oil and other major oil companies for an end to the embargo and to allow them to begin tapping into the estimated 300,000 to 500,000 barrel-per-day reserves thought to exist off Vietnamese shores.<sup>104</sup> Having now examined the political and economic status of Vietnam, a current analysis of the military will be next.

### C. VIETNAM'S MILITARY STATUS

The third sector of this examination of Vietnam, the military, is perhaps the best example of the interrelationship between sectors. The military's importance to Vietnam's very existence can not be over estimated; at one time the military, for all intents and purposes, was the government. Its status in the

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<sup>103</sup>Ibid.

<sup>104</sup>"Oil firms want Vietnam open: Mobil in talks about exploration if embargo lifts," San Jose Mercury News, 10 September 1991, Sec. E, p. 14.

ruling political bodies continues today, with General Anh rising from Defense Minister to President of the Politburo and to rank second in party hierarchy. The military has been Vietnam's political breeding ground and greatly resembles the traditions which the "long marchers" from China set for their government. Only this year at the Seventh Party Congress were many veterans from the First and Second Indochina Wars removed from their powerful positions in favor of younger, economically trained leaders.

As Vietnam's military performed as the political instrument of Hanoi, first against the French, then the Americans, and most recently against the Khmer Rouge in Cambodia, they dominated the economic structure of the country. In the latter part of their occupation of Cambodia, in 1988 or 1989, the total number of active duty forces approached 1.2 million, with another 3.5 million reserves. All economic planning went to support the military, including the approximately US\$1 billion per year in military aid from the Soviets.<sup>105</sup> It was this support for the military which became the root obstacle to economic reform.

The desire of the government to seek an end to the embargo has resulted in drastic changes in the military. These changes, coupled with the loss of Soviet aid, have significantly altered the threat status the Vietnamese military once held in the rest of Southeast Asia. Two other related issues have also effected military reform in Vietnam: Hanoi's acceptance of a resolution for Cambodia under the U.N. plan (as mentioned earlier, this approach to a settlement in Cambodia may be somewhat altered by the collapse of the

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<sup>105</sup>Hiebert, "Defeated by victory," p. 24.

Soviet Union's communist government forcing Hanoi to make amends with Beijing) and the rapprochement with China. China had been both Vietnam's most direct military threat and a supporter of the second most important threat, the Khmer Rouge. As a final resolution has not been adopted by all the parties involved in the Cambodian civil war, it is too early to tell if there will be a "red solution" (named for a purely communist settlement<sup>106</sup>) or one that will truly result in a free and largely non-communist Cambodia. In either case, the threat once posed to Vietnam from the Khmer Rouge and from the Chinese will be reduced if not completely eliminated.

The current Vietnamese military force structure stands at 550,000 active duty, 2,500,000 reserves, and another 2,500,000 para-military force which acts as a standby reserve. The People's Army of Vietnam (PAVN) consists of an Army (with 95% of the forces or 475,000 combat and support troops), the Navy (with 3% or 20,000 personnel including 14,000 Marines), the Air Force (with 1% or 6,000 personnel), and the Air Defense Force (with 7% or 49,000 personnel). Though the PAVN is one of the world's most capable and battle tested military organizations, it is limited by aging equipment and drastic reductions in operating funds. The majority of its equipment is Soviet-made and far from state of the art. There is a small percentage of U.S. equipment left over from the war and an equally small amount of Chinese weapons. Vietnam has no

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<sup>106</sup>Murray Hiebert and Tai Ming Cheung, "Comrades again," FEER, 22 August 1991, pp. 8-9.

military related industry and has to rely entirely on outside purchases to support its forces.<sup>107</sup>

The Vietnamese retain a potent fighting force, however, as the months pass without the level of Soviet military aid to maintain their readiness, the military will be forced to watch as their equipment becomes obsolete, unusable due to the lack of spare parts, and vulnerable to lessor forces. To this end, the Vietnamese may attempt to cultivate, along with their new diplomatic and political association with China, a renewed military association to include arms purchases. This is not a scenario that is in the best interests of the U.S. or of the other countries in the region.

This chapter has presented a detailed look at Vietnam today; the results of the latest party congress and the people chosen to lead Vietnam for the next five years or longer, economic data showing both the promise of recovery and the road blocks which still exist, and the status of the military. The interrelationship among the sectors should be self evident from this review, as should Vietnam's need for outside assistance. The continuing strangle hold the communist party and its leadership has on all levels of government will slow conversion to a pure market economy, though some areas of the country will go further than others towards that end. Events in the Soviet Union will have a profound effect on Vietnam and may well result in much closer ties to China now that the Chinese no longer have to fear a Soviet client. How could this alter the balance of power in Southeast Asia? Has the U.S., by continuing the

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<sup>107</sup>Global War Game 1991: Regional Assessment-Vietnam, Center For Strategic Studies, Naval War College, Newport, Rhode Island, June 1991, Annex C, Appendix 2, Tab1, pp. c-2-1-1-c-2-1-7.

embargo through new conditions to normalization and against calls from business and congressmen, abdicated its ability to influence change in Vietnam? In Cambodia? Is a "red solution" in Indochina a sign of life for communism and perhaps for an Asian Cold War?

The next chapter will attempt to clarify Vietnam's position in the region with both communist and non-communist countries. It will examine regional organizations and sub-groupings and their relationships with Vietnam. The recent rapprochement with China and the impending settlement in Cambodia will color Vietnam's position in the region, a position which had been improving as their threat to other regional nations diminished.

#### IV. VIETNAMESE RELATIONS WITHIN SOUTHEAST ASIA

In a major foreign policy speech given at the University of California at San Diego in October 1990, Assistant Secretary of State Richard H. Solomon spoke of the breakdown of Cold War alignments and the sudden shift of the "tectonic plates" of global politics, ending one era and opening possibilities for a new realignment of international relationships.<sup>108</sup> This realignment has been made possible by the collapse of communist governments followed by efforts to integrate these newly-formed (and still forming) democracies into the world economy. Though dramatic in scope, this process has not been universal. Asia is an example where the aging leadership in China, North Korea, and Vietnam steadfastly cling to power given them under communism. However, faced as these governments are with failed economic policies and growing pressure within their populations for significant changes, there has not been much movement towards political liberalization.

Vietnam's position within this stratum of change can at best be depicted as straddling the Rubicon, with one foot rooted in dogmatic Marxist ideology and the other foot placed gingerly on the pragmatic path towards a free market economy. This circumstance is most evident in Vietnam's relations within Southeast Asia, with the communist countries of Laos and Cambodia and with the non-communist countries that make up ASEAN (Thailand, Indonesia, and

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<sup>108</sup>Richard H. Solomon, "Asian Security in the 1990's: Integration in Economics, Diversity in Defense," U.S. Department of State Bureau of Public Affairs Dispatch, November 5, 1990, Volume 1, Number 10, p.243.

Singapore in particular, because of the established ministerial-level relations and significant, if unofficial, trade.) It is in these relations that both newfound opportunities and decades-old objections can be found for Vietnam to end its long period of regional and international isolation.

An analysis of Vietnamese relations within the region needs to focus on three areas; security, regional economics, and extra-regional or international economics. International economics, in the case of Vietnam, and in Southeast Asia in general, is inexorably linked to international politics and specifically to the super power influences upon the region. Each of the three areas has become intertwined with the others and depend largely upon a solution in Cambodia before a revival can begin of what Keith Richburg calls "Vietnam's moribund economy".<sup>109</sup>

It has been Vietnam's security strategy in Indochina, since the end of the Viet Minh war, that has been largely to blame for Vietnam being viewed as a pariah state. This national security strategy led to their invasion of Cambodia to eliminate the Khmer Rouge as a threat to southern Vietnam, an action that was seen by most nations not as a defensive, security-oriented decision, but as a policy-based attempt to bring all of Indochina under direct Vietnamese control. The invasion was also seen as a threat to the ASEAN states which have since used the Cambodian issue as a central, unifying theme. (This most specifically applied to Thailand, as the fighting between Vietnamese forces and the Khmer Rouge drove the rebel forces past the Cambodian border into Thailand.) Internal changes within Vietnam alone, such as the post-1986

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<sup>109</sup>Keith Richburg, "Back To Vietnam," in Foreign Affairs, Vol. 70, No. 4, Fall 1991, p. 112.

economic liberalization, will not alter the residual fears harbored by many Southeast Asian nations concerning a continued Vietnamese desire for regional hegemony. Vietnam must develop and enact confidence building measures in the area of Southeast Asian security, such as continued positive support for a settlement in Cambodia and assurances of non-aggression towards other regional nations.

Even though Vietnam has been dependent on the Soviet Union for the bulk of its trade and aid over the last 13 years, regional trade with Singapore and Thailand, as well as with traditional trading partners Cambodia and China, is on the increase and is needed to help fill the void left by the reduction in Soviet economic assistance. This increase in trade can be traced to the Vietnamese troop withdrawal from Cambodia and the impression within the region that Vietnam is less and less the pariah and threat. The center of Vietnam's regional trade is in the south, especially in the potentially rich Mekong delta area. Because commerce in the delta is dependent on the Mekong River, which also flows through Laos, Thailand, and Cambodia before reaching Vietnam, economic security in the region is dependent up-river development projects and region-wide relationships concerning river usage. This acts to exacerbate Vietnam's dependency on its regional neighbors at a time when Vietnam can not be seen as unduly exerting influence.

The final area of linkage is extra-regional economics. Ending the embargo against Vietnam and Cambodia (if U.S. congressional pressure does not end it first) remains conditional upon a settlement in Cambodia and would open the gates for those countries and institutions wishing to invest in Vietnam. Vietnam can not hope to recover without international aid and investment,

which the U.S. still prevents through its influence in the major lending organizations, though fewer and fewer countries are adhering strictly to the ban. Britain, Australia, Taiwan, and Japan lead a host of countries with substantial initial investments or proposed projects in Vietnam, as covered in the previous chapter, due in large measure to the positive diplomatic approaches made by Thailand, Indonesia, and Singapore and the positive economic reforms enacted in Vietnam since 1986.

For Vietnam to hold strategic potential in Southeast Asia for the U.S. it should be included in any and all regional organizations, present ones like ASEAN and APEC, and in any that are formed in the future, such as the proposed East Asian Economic Group (EAEG). The Cambodian civil war highlights what Sheldon Simon calls ASEAN's greatest weakness: the inability to protect Southeast Asia from intrusion of unwanted external powers as mentors of regional adversaries--the Soviet Union for Vietnam and China for Thailand and the Khmer Rouge in Cambodia.<sup>110</sup> (The same argument could be made for the U.S. in the Philippines.) A Vietnam tied to the region, not as a super power client, but through economic and political associations could help establish a form of "regional resilience" or "Asian collective security." Such an association would be better equipped to resist undue outside influence, either military or economic. Secretary Solomon and others, however, view the regional sources of tension and challenges to security as too diverse to lend themselves to a Helsinki-type or CSCE-styled institution.<sup>111</sup> Whether by

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<sup>110</sup>Sheldon W. Simon, "ASEAN Security In The 1990's," Asian Survey, Vol. XXIX, No. 6, June 1989, p.581.

<sup>111</sup>Richard H. Solomon, "Asian Security," p.244.

formal organization or simply by sharing regional economic and political parity, Vietnam associating freely with all Southeast Asian nations would bolster regional solidarity and thereby reduce tensions.

The next three sections will examine the current relations between Vietnam and its neighbors, with a focus on the three areas of interdependence outlined above. First will be Vietnam's relations with Cambodia and Laos. The second section will look at the non-communist neighbors of ASEAN, Thailand, Singapore, and Indonesia in particular because of the extent of their recent interaction and influence with Vietnam. To conclude, there will be a look at Vietnam's relations with regional organizations and associations, including the potential for Vietnam's membership.

#### A. VIETNAMESE RELATIONS WITH CAMBODIA AND LAOS

Vietnam's relationship with its Indochina neighbors has, since the end of the war with the U.S., been based primarily on a concept of national security.<sup>112</sup> This association, in which Vietnam views both Cambodia and Laos as integral parts to its national (and therefore an all--Indochina) security strategy, has evolved to the point where Vietnam's interests will be served if the governments in Phnom Penh and Vientiane are not hostile or pose a threat to Hanoi. On a secondary level, but only a fraction less important than the security focus, is Vietnam's ideological relationship with the communist governments of Cambodia and Laos. Cambodia and Laos, like Vietnam,

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<sup>112</sup>Nayan Chanda calls it an Indochinese alliance, in which the Vietnamese have refined their justification for and raised it to the "level of some immutable natural law--a law dictated by geography and history." Nayan Chanda, Brother Enemy-The War After The War, (New York: Collier Books MacMillian Publishing Company, 1986), pp. 374-375.

remain firmly controlled by Marxist regimes, the former of which owes its very existence to Hanoi. All three have until very recently been tied economically to the Soviet Union and the Eastern Bloc and now in 1991 are struggling to cope with the loss of support coupled with the requirement to integrate into the world market. Beyond the shared political orientation and their dwindling economic involvement with the Soviet Union, Vietnam's relations with Cambodia and Laos have taken different paths.

### 1. Cambodia

Vietnamese relations with Cambodia highlight the three areas of interdependence better than any other bilateral relationship which Vietnam now enjoys. The Vietnamese have, since the 1930's, viewed Cambodia with "special friendship and solidarity", a phrasing that denotes their security strategy and which has recently been resumed in official documents.<sup>113</sup> Vietnam has sought some form of federation or confederation, to include all three Indochina states, since the end of World War II.<sup>114</sup> Since the end of the Vietnam War in 1975 a semipolarized, transregional structure has taken shape in Southeast Asia: ASEAN against Indochina. Whether formed by blatant Vietnamese hegemony or merely in order to collectively deal with outside threats and challenges posed by Western, Soviet, and Chinese encroachments into Southeast Asia, the Vietnamese-dominated associations with Cambodia and Laos were nurtured and remain active today, though the extent of

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<sup>113</sup>"Words of Comfort," FEER, 2 May 1991, p.8.

<sup>114</sup>Douglas Pike, "The Indochina Issue: Its Impact on Regional and Global Relations," Asian Security Issues: Regional and Global, editors.Robert A. Scalapino, Seizaburo Sato, Jusuf Wanandi, and Sung-joo Han, (Berkeley, California: Institute of East Asian Studies University of California), pp.234-235.

influence Vietnam exerts upon each of those countries has become increasingly difficult to measure.<sup>115</sup>

For some analysts, the larger Cambodian issue, and therefore relations between Vietnam and Cambodia, has become a proxy struggle between Vietnam and China.<sup>116</sup> China, according to this view, had been presenting Vietnam with a choice between accepting the Chinese-backed Khmer Rouge's return to power as part of a settlement plan in Cambodia or continued economic isolation and poverty caused by a combination of over reliance on Soviet-styled economics and the U.S.-led embargo. The choice given Vietnam is one that China has bartered its UN Security Council vote to force.<sup>117</sup> China's support for the UN peace plan in its current form, which would disarm if not outright dissolve the Hun Sen government (while leaving the Khmer Rouge with a significant chance to return to power) has skillfully focussed the issue on the extent of Hanoi's influence on Phnom Penh.<sup>118</sup> As seen by the U.S., Vietnam continues controlling its "puppet" client in Phnom Penh, who is

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<sup>115</sup>Ibid., p. 236.

<sup>116</sup>"In China's Shadow," The Economist, 16 March 1991, p.31.

<sup>117</sup>Ibid.

<sup>118</sup>The Comprehensive Political Settlement Agreement, sponsored by the UN Security council, consists of three parts; settlement of all outstanding political issues, the cease-fire process, and general elections. As long as any disputes remain, which include Phnom Penh and Hanoi's reluctance to sign due to the lack of provisions prohibiting the Khmer Rouge from returning to power, no cease-fire will begin. The cease-fire process itself relies too much on the "honesty" of the four factions and allows too much leeway in the disarmament process. During talks between the four factions held in August 1991 in Pattaya, Thailand, an agreement was reached to reduce troop strength for all four armies by 70 percent, but final agreement on the U.N. plan was not reached. Election procedures and interim government control are areas which remain unsettled. Philip Shenon, "Foes in Cambodia Wind Up 3 Days of Talks With Hope," The New York Times, 30 August 1991, Sec. A, p. 4.

refusing the settlement plan on grounds made by China to appear more relevant to Vietnamese security than to the autonomy of the Cambodian people.<sup>119</sup>

Vietnam and Cambodia remain strongly linked in all three areas; security, regional economics, and extra-regional economics. In security, Vietnam continues to fear a return of the Khmer Rouge to a position of sole leadership in Cambodia and will actively pursue a policy to prevent that occurrence. Evidence of this resolve can be seen in the Vietnamese diplomatic approach to China and the prospects for the two historical enemies resuming normalized relations. China has become a leading broker during the Cambodian peace talks, sponsoring meetings between rival factions in Beijing first in March and then again in July, 1991.

The collapse of Soviet communism has forced a re-evaluation of Sino-Vietnamese relations and their collective interests in Cambodia. Vietnam and Cambodia both stand to gain from a lessening of tension between Vietnam and China, not the least of which will be an end to the economic embargo. China holds the key to Vietnam's objection to the U.N. plan--the lack of explicit

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<sup>119</sup>The issue of Hanoi's influence over the government in Phnom Penh is subject to a wide variance of opinion: High-ranking defectors from Cambodia say the highest authority in Phnom Penh is the Vietnamese Ambassador, in Kassie Neou, "Washington's Flawed Cambodia Policy," The Asian Wall Street Journal Weekly, 5 November 1990; Contrary to the common view, the Kampuchean People's Revolutionary Party in Phnom Penh is not a monolithic pro-Vietnamese organization., in Stephen Heder, "New Power Struggle Looms in Cambodia," The Asian Wall Street Journal Weekly, 17 December 1990; Peking no longer views Hun Sen as purely a Vietnamese puppet, particularly if it were possible to reduce his present political dependence on Vietnam., in Robert Delfs, Michael Vatikiotis, and Charles Smith, "Muted outrage," FEER, 2 August 1990, p.12; and Although Mr.Baker indicated then that the Hun Sen regime was no longer considered a "puppet" with the 1989 pullout of Vietnamese combat forces from Cambodia, in Nayan Chanda, "Washington Talks Directly With the Hun Sen Regime," The Asian Wall Street Journal Weekly, 10 September 1990.

protection against a return of the Khmer Rouge--and has repeated its offer to cut its aid to the Khmer Rouge.<sup>120</sup> Vietnam, in return, unseated the two politburo members, during the 1991 party congress, who were staunchly anti-Chinese, Nguyen Co Thach and Mai Chi Tho.<sup>121</sup> The sum of these moves by Vietnam and China may lead to a settlement in Cambodia which, in the short run, will benefit the Vietnamese economically, but which may not solve the primary underlying cause of the conflict, Khmer Rouge participation in ruling Cambodia.

The Mekong River's importance to economic security in southern Vietnam and the smuggling of much-needed goods across the Cambodian border (large amounts of which is done by government troops in government vehicles) are just two of the most significant indicators of Vietnam's economic interdependence with Cambodia.<sup>122</sup> Although there are cracks in the U.S.-led embargo against Vietnam,<sup>123</sup> full-scale development aid from the IMF, World Bank, and the Asian Development Bank will be needed to sustain an economic turnaround in both countries. The overlap of these bilateral trade issues with

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<sup>120</sup>"Khmer Rouge faces cutoff of all aid after conflict is settled, China says," SIMN, 6 September 1991, Sec. A, p. 14. China has made this pledge before, however, this time they also have said that non-military aid would also be cut.

<sup>121</sup>Hiebert and Tai, "Comrades again," p. 8. For further information on Sino-Vietnamese rapprochement see Nicholas D. Kristof, "Vietnamese Leaders to Visit China In Move Expected to Revive Ties," The New York Times, 13 September 1991, Sec. A, p. 7, "To Peking, for peace," FEER, 18 July 1991, p. 13, and Rodney Tasker, "What killing fields?," FEER, 12 September 1991, p. 15.

<sup>122</sup>Murray Hiebert, "Muddy waters," FEER 21 February 1991, p.28 and "Defeated by victory," FEER, 13 June 1991, pp.24-27.

<sup>123</sup>Susumu Awanohara and Murray Hiebert, "Open door in dispute," FEER 25 April 1991, pp.10-11.

the larger embargo/civil war issue highlights the interdependence of security, regional and international economics.

## 2. Laos

Vietnamese relations with Laos appear to be limited to one level, communist party to communist party and have not always been friendly or cooperative. Nguyen Van Linh, then Secretary-General of the Communist Party of Vietnam and Le Duc Anh, then Defense Minister, were attendees at the 5th Party Congress of the Lao People's Revolutionary Party (LPRP) held in March of 1991. Linh and Heng Samrin, the Party Secretary-General and President of Cambodia, each gave speeches prior to closing ceremonies of the Party Congress.<sup>124</sup> Reciprocal invitations to Kaysone Phomvihane, President of the LPRP, and to representatives from both Phnom Penh and Moscow were extended for delegates from those countries to attend Vietnam's Seventh Party Congress, scheduled for 24-27 June 1991 in Hanoi.<sup>125</sup>

Laos appears to have made much better progress along the path towards a market economy than has Vietnam, as evidenced by the US\$12 million in credits from the IMF for Vientiane's reformed monetary policies, which have reduced inflation, improved banking conditions, and stabilized the currency. On the negative side, costs of trans-shipment of Lao products through Vietnam has increased the price of the products by as much as 60 percent, making them less competitive on the international market.<sup>126</sup> Laos

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<sup>124</sup>"Congress Concludes 29 March," Vientiane Domestic Service, in FBIS-EAS-91-062, 1 April 1991, pp.30-31.

<sup>125</sup>"Host of Problems," FEER, 13 June 1991, p.8.

<sup>126</sup>Murray Hiebert, "The long haul," FEER, 25 April 1991, pp.61-62.

has also suffered from the loss of Soviet credits and aid which totalled US\$974 million over the last five year plan. The Soviets will further cut economic relations with Laos by reducing the total trade between the two countries by half, putting that much more pressure on Laos to establish new markets for its goods.<sup>127</sup> Vietnamese taxes on Lao products shipped through Vietnam, though a source of revenue for cash-starved Hanoi, might become an issue between the two countries who both need the competitive advantage that their cheap labor provides in the production of consumer goods.

Vietnam's economic and political position, relative to Cambodia and Laos, will continue to revolve around these two dynamic issues: first, how to move economically towards a market economy, with increased dependence on regional trade, international financial institutions, and developed nations, while attempting to maintain some form of socialist state; and second, how to balance the security policy of each country, which may be at odds with both neighboring countries and super power regional interests, with the need to end the economic and political isolation. The key may be found in the developing relations with the countries of ASEAN and with the organizations of Asia.

Vietnam's relations with Cambodia, and to a lesser extent with Laos, can be depicted primarily as a security framework, under which Hanoi attempts to keep the governments in Phnom Penh and Vientiane at least sympathetic to its Indochina initiatives and tacit leadership. The status of this security "alliance" as Nayan Chanda has termed it, rests on two factors: the most important of which is a settlement in Cambodia and the final distribution

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<sup>127</sup>Ibid.

of power within their ruling government; and the second is the status of communism in the region as a whole. Differing rates of economic development, spurred by extra-regional investment and technological assistance, will place tremendous pressure on remaining Marxist regimes, especially Vietnam's because of the embargo. The response to this pressure will most likely lead to uneven levels of political/ideological development within Indochina and might lead to friction between the more liberal and hard-line regimes. Historical ethnic pressures will also remain a factor in the region, highlighted by the uneven distribution of wealth among ethnic minorities, and will require specific political/social development plans if conflict is to be avoided.

#### **B. VIETNAM AND THE NON-COMMUNIST COUNTRIES OF SOUTHEAST ASIA**

There is as much variance in the approaches to Vietnam by non-communist countries of Southeast Asia as there is in the approaches made by super powers from outside the region. Several reasons for this variance were mentioned above, Vietnam's invasion of Cambodia and the threat it posed to other countries in the region, the view that Vietnam will continue to pursue a goal of regional hegemon, and the various alignments between super powers and countries within the region.

Singapore, Indonesia, and Thailand have all held talks with Vietnamese officials on issues ranging from Cambodia to trade. Out-going Singapore prime minister Lee Kuan Yew met with Vo Van Kiet while he was vice-chairman of Vietnam's Council of Ministers, in Davos, Switzerland in February

of 1990 to discuss how to improve Indochina's situation.<sup>128</sup> This was taken as a sign of overall improvement in ASEAN-Vietnamese relations. Indonesian President Soeharto stopped in Hanoi on his return from visiting Beijing in late 1990.<sup>129</sup>

The most involved talks have been between Thailand's ex-prime minister Chatichai Choonhavan's government and Hanoi. Then Army Commander, General Chaovalit Yongchaiyudh led an 80-member delegation to Hanoi in March 1990 after Thai Foreign Minister Siddhi announced that Vietnam was no longer a threat.<sup>130</sup> However, Chatichai's moves, which included his Cambodian initiatives and attempts to control the powerful Thai military, who were more closely aligned with the Foreign Ministry than with the members of Chatichai's inner circle, were seen as going too far, too fast. In fact, Chaovalit himself was pressured from office in June 1990 under a similar cloud of corruption that finally reached Chatichai.<sup>131</sup> Prime Minister Chatichai then forced Foreign Minister Siddhi from leadership of the Social Action Party, a political move aimed at retaining the party in Chatichai's ruling coalition. The anti-Vietnamese Siddhi was also relieved of his post as Foreign Minister in

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<sup>128</sup>Shee Poon Kim, "Singapore in 1990," Asian Survey, Vol.XXXI, No.2, February 1991, p.177.

<sup>129</sup>Donald K. Emmerson, "Indonesia in 1990," Asian Survey, Vol.XXXI, No.2, February 1991, p.180. Indonesia has been spearheading, along with France, the attempt to find a resolution to the situation in Cambodia.

<sup>130</sup>Scott R. Christensen, "Thailand in 1990," Asian Survey, Vol.XXXI, No.2, February 1991, p.201.

<sup>131</sup>Rodney Tasker, "Popular putsch," FEER, 7 March 1991, pp. 17-19.

August 1990 which he had held for ten years.<sup>132</sup> Since the February 1991 coup, overthrowing Chatichai's government, Thailand's ruling military generals have departed from Chatichai's policy of reconciliation with Hanoi and the government in Phnom Penh and have again backed the resistance factions, including the Khmer Rouge.<sup>133</sup>

This year has seen a number of visits by delegations from Hanoi to Jakarta and Kuala Lumpur.<sup>134</sup> Indonesia has opened the first foreign joint venture bank, Indovina of Indonesia, in Ho Chi Minh City, with a wide range of services available. Malaysia opened a consulate in Ho Chi Minh City, the first ASEAN country to do so.<sup>135</sup>

On the purely economic side, figures on trade between the ASEAN countries and Vietnam are difficult to find and are often far from accurate. Singapore and the port of Saigon have been linked by a shipping container service since 1989, which acts as a conduit around the trade embargo. As of 1988 Singapore accounted for just over 20 percent of Vietnam's total trade or US\$220 million.<sup>136</sup> What percentage of that trade originates in other ASEAN countries remains in question.

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<sup>132</sup>Scott R. Christensen, "Thailand In 1990-Political Tangles," Asian Survey, Vol. XXXI, No. 2, February 1991, pp.198-199.

<sup>133</sup>"Thailand realigns foreign policy on Cambodia," FEER, 21 March 1991, p.12.

<sup>134</sup>"Vietnam Chronology," in Indochina Chronology, as quoted from FBIS-EAS-91 January 7,10,13,16,19,22,&27 and FBIS-EAS-91 February 26 & 27.

<sup>135</sup>Ibid., in FBIS-EAS-91-12 and FBIS-EAS-91-26.

<sup>136</sup>Murray Hiebert, "Waterfront woes," FEER, 7 March 1991, p.46 and a confidential World Bank source, which provided the trade figures.

In 1989 Vietnam became the third largest exporter of rice behind the U.S. and Thailand, a move that has forced the Thai government to increase supplements to rice farmers.<sup>137</sup> Shortages of fertilizer once furnished by the Soviet Union has limited the Vietnamese crops since 1989 and a combination of weather and disease has hurt Thailand's production, but the competition between Vietnam and Thailand for a large share of that very lucrative world market appears to be here to stay.

There is an inverse relation between the Vietnamese military and the militaries of the ASEAN countries. Vietnam is actively reducing its military's size to reduce overall military expenditures in the face of lost Soviet support. Nearly half of the 1.2 million man army, as previously noted, has been deactivated. Soviet military aid, estimated at US\$1 billion per year during the period Vietnam was fighting in Cambodia, has been withdrawn and no new agreement for military aid has been signed.<sup>138</sup> Any new equipment will have to be purchased with hard currency at world market prices, seriously hampering Vietnam's ability to keep its military supplied with modern arms.

While Vietnam struggles to find the deactivated soldiers jobs and to come up with exchange currency to purchase new equipment, the militaries of the ASEAN countries have been on a shopping spree. The percent of GDP spent on the military by those countries in 1989 and 1990 ranges from a high of over 6

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<sup>137</sup>"Vietnam-Economy/Infrastructure," Asia 1991 Yearbook, (Hong Kong:Review Publishing Company Ltd. 1991), p.239 and "Thailand-Economy/Infrastructure," Asia 1991 Yearbook, p.232.

<sup>138</sup>Murray Hiebert, "Defeated by victory," FEER, 13 June 1991, pp.24-26.

percent in Malaysia to between one and two percent in the Philippines.<sup>139</sup> Modern weapons systems, such as the F-16 fighter, have been purchased by Thailand, Singapore, and Indonesia. Malaysia has just completed a deal with Britain to buy the Hawk aircraft in both training and ground attack versions. Thailand has contracted with Germany for a 7800-ton helicopter aircraft carrier.<sup>140</sup>

Vietnam still has over 600,000 in its active military and a huge reserve militia numbered at approximately 3.5 million. The Vietnamese forces have to be considered the most powerful in Southeast Asia, if not one of the most powerful regional forces outside China. Even with the modern purchases, no ASEAN country could stand alone against Vietnam. Not even an alliance of ASEAN forces could prevail against the large number and experience of the Vietnamese forces. As long as there remains an issue that puts Vietnamese security at risk, as would be the case with Khmer Rouge dominance in any new government in Cambodia, then there exists the possibility of Vietnamese military action directed to neutralize that threat. The inclusion of Vietnam into regional associations would strengthen the collective actions to remove such a threat, and would have a better chance to prevent another occurrence like the Cambodian invasion.

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<sup>139</sup>"Tables of world military expenditure, 1980-90," Stockholm International Peace Institute Yearbook 1990-World Armaments and Disarmament, (New York:Oxford University Press, 1990), pp.190-198.

<sup>140</sup>"Navy Signs Contract With FRG Firm for Carrier," in FBIS-EAS-91-044, 6 March 1991, p.54.

## C. VIETNAM AND REGIONAL ASSOCIATIONS

For Vietnam to fully achieve its economic goals, foreign direct investment alone will not be enough. Too many segments of their economy, and society in general, have been affected by a decade and a half of isolation. The benefits of extra-regional economic aid must be balanced against the costs. New industrial projects, in areas aimed at reversing the stagnation brought on by central controls, would most likely be developed under at least partial foreign ownership and management. The Vietnamese are not in a position, either in educational development or technological experience, to design, build, and operate this level of facility and will be forced to rely on outside support. The question is from whom and at what cost?

As stated earlier, both Europeans, led by Britain and the Scandinavian countries, Taiwan, and Japan stand ready to control the lion's share of investment opportunities once the embargo is removed or perhaps even sooner. This poses a dilemma for Vietnam. Are its economic fortunes completely dependent on the West and Asian economic giants like Japan and Taiwan or do the countries of Southeast Asia offer a realistic alternative?

### 1. The Association of Southeast Asian Nations (ASEAN)

The answer could well rest on the future on one group, ASEAN. Since its inception in 1967 ASEAN has been one of the most successful regional groupings in the world. Asia specialist Robert Scalapino says, "ASEAN has reduced bilateral tensions within the six-nation group. State-to-state war risk in

this region is lower than ever before."<sup>141</sup> The six ASEAN nations have a combined population of more than 300 million and in 1990 their trade with the rest of the world reached US\$295 billion. Two-way trade with the U.S. in 1990 totaled US\$46 billion, making ASEAN the fifth largest trading partner.<sup>142</sup>

ASEAN's intentions have not been narrowly limited to the group's members either. A main goal, first introduced in the 1971 Kuala Lumpur Declaration, called for a Zone of Peace, Freedom, and Neutrality (ZOPFAN) to include all of Southeast Asia and became an inherent aspect of the later concept of "regional resilience." Though initially seen as a promotion for regional neutralisation, ZOPFAN evolved into a concept where ASEAN states would approach internal security individually, but by consensus on an ideal state of affairs (development-induced political stability), which would create a regional effect.<sup>143</sup>

Vietnam's invasion of Cambodia, their ten-year occupation, and the installation of a pro-Hanoi regime in Phnom Penh moved ASEAN away from merely a political/economic grouping and allowed them a collective security focus as well. Their solidarity in the stand against the "Vietnamese aggression" greatly enhanced the organization's status in the eyes of Western governments. ASEAN member Indonesia has taken a front seat in the negotiations for a

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<sup>141</sup>Robert Scalapino as quoted in Michael Vatikiotis, "Sense of purpose," FEER, 20 June 1991, p.24.

<sup>142</sup>"Fact Sheet: Association of South East Asian Nations (ASEAN)," U.S. Department of State Dispatch, Volume 2, Number 31, 5 August 1991, p. 564.

<sup>143</sup>Michail Leifer, ASEAN And The Security Of South-East Asia, (New York:Routledge 1989), p.67 and Donald E. Weatherbee, "The Diplomacy of Stalemate," in Southeast Asia Divided-The ASEAN-Indochina Crisis, edited by Donald E. Weatherbee, (Boulder, Colorado:Westview Press, Inc. 1985), p.8.

peaceful settlement in Cambodia, and as stated before, several other members have capitalized on the product of this solidarity and have established ties with Vietnam based on positive developments towards a resolution.

Vietnam's integration into what ASEAN envisions as a peaceful Southeast Asia was perceived to have begun with Thailand's initiatives under Prime Minister Chatichai in 1988. There is not, however, a consensus of opinion within ASEAN as to the future role for Vietnam in the region. Questions remain as to Vietnam's hegemonic intentions, Thailand's security relationship with China as a guarantee against further Vietnamese aggression against Cambodia, and Vietnam's growing relations with China.<sup>144</sup> Vietnam refused to acknowledge ASEAN as a corporate entity until 1978, seeing it merely as a U.S.-backed pawn to Western interests. At that time Vietnam was seeking improved relations within the region because of their worsening relations with China and their impending invasion of Cambodia. This move towards ASEAN as a corporate entity, started during Vietnam Prime Minister Pham Van Dong's September-October 1978 tour of ASEAN capitals, showed the level of importance the Association had developed in Hanoi's foreign relations.<sup>145</sup>

Several other global events have influenced the direction ASEAN has moved over the last year: the decline and fall of European communism; improving U.S.-Soviet ties and its concomitant reduction in regional

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<sup>144</sup>For further discussion of Vietnam-ASEAN relations see Sheldon W. Simon, "The United States and Conflict Reduction in Southeast Asia," Contemporary Southeast Asia, Volume 12, Number 2, September 1990, pp. 92-93 and Sheldon W. Simon, "ASEAN Security After Kampuchea, in Evolving Pacific Basin Strategies-The 1989 Pacific Symposium, pp. 226-227.

<sup>145</sup>Michael Leifer, ASEAN And The Security Of Southeast Asia, (New York: Routledge, 1989), pp. 73-74 & 83-84.

confrontations; continued movement towards regional trading blocks in Europe and in North America; and a reduction in U.S. military presence in Asia. Three new initiatives will occupy the ASEAN nations as they prepare for a summit meeting in Singapore in 1992; an ASEAN economic treaty; the extension of ASEAN membership to other Southeast Asian nations (discussion will center on Indochina and Burma); and discrete, if not significant, defense/security cooperation.<sup>146</sup> Each of the three have a direct bearing on Vietnam's future and the U.S. should recognize the need to move Vietnam away from being part of the problem, to being part of the solution.

## **2. Other Regional and Asian Associations**

The free world trading environment is dependent upon a myriad of organizations, associations, and groups for the conduct of international business. These groups range from bilateral trading arrangements to the General Agreement on Trade and Tariffs (or GATT), which has a membership that includes nearly all the free market countries in the world. Some of these associations have as their basis a specific product or good while others deal with economic policies and the general flow of commerce between countries. Finance, investment, and development aid are the main business of a number of other organizations and associations. This world trading structure provides sources of capital investment and development assistance, relief from unequal tariffs or barriers to trade, forums for the exchange of technological and scientific data, and in some cases political strength through collective stands on regional or global issues. No matter the specific focus of the individual

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<sup>146</sup>Michael Vatikiotis, "Sense of purpose," pp.24-25.

association, the primary reason for their existence is to facilitate trade, to expand markets, and to enrich the member nations.

Vietnam has been isolated from membership or active participation in these organizations since their invasion of Cambodia and in some cases, even sooner. The U.S. embargo, though, has not been the sole factor in the state of the Vietnamese economy; it has been a combination of the embargo, lack of membership and/or participation in critical trade and investment organizations, and their Marxist economic policies. Vietnam desperately needs to change this situation if it aspires to turn its economy around and fully enter the world market. The U.S., however, has the power to control the decisions in a majority of the most important institutions with which Vietnam will need to associate. Accommodations leading to a settlement in Cambodia and of the MIA/POW issue may bring an end to the embargo, but the U.S., by virtue of their dominance in organizations such as the IMF, World Bank, and Asian Development Bank, will continue to influence the flow of needed funds. Only a comprehensive political dialog between Washington and Hanoi will open the way for Vietnam to fully and independently gain entry into the needed associations.

Considering Vietnam's plentiful natural resources, the organizations which would offer the most immediate access to markets and technical assistance would be the ones which deal with specific products like: the International Natural Rubber Organization, the Asia and Pacific Coconut Community, the Association of Tin Producing countries, the Committee for Coordination of Joint Prospecting for Mineral Resources in South Pacific Offshore Areas, the International Tropical Timber Organization, and the

Southeast Asian Lumber Producer's Association. These are but a sample of the available organizations devoted to specific product development and trade.<sup>147</sup>

The Asian Development Bank (ADB), which Vietnam has been a member of since September 1976 (a unified Vietnam was allowed to become a member of the ADB, the IMF, and World Bank because of South Vietnam's status with those institutions from before the war), is one of the most important investment creditors in the Asia-Pacific region. Specializing in "soft loans" for infrastructure and agriculture, as well as concessional loans, the ADB's lending rates in 1990 were well below normal commercial rates and they extended a record US\$3.6 billion in loans in 1989.<sup>148</sup> Japan is the leading donor nation to the ADB and has been opposed to assistance for Vietnam as long as the Cambodian issue remains unsettled. Japanese influence in ADB, like the U.S. influence in the IMF and World Bank, has prevented Vietnam from receiving investment loans and development aid as part of the embargo. Without these institutions, economic recovery will be all but impossible.

An informal grouping of 12 Asia-Pacific countries, begun in November 1989 in Canberra, Australia, is but another forum to which Vietnam must seek membership. The Asia-Pacific Economic Cooperation (APEC) has as its aim multilateral cooperation among the most important market-oriented economies of the region. Members now include Australia, Brunei, Canada,

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<sup>147</sup>A list of Asian-based associations can be found in Asia 1991 Yearbook, (Hong Kong: Review Publishing Company Ltd., 1991), p. 61.

<sup>148</sup>"Vietnam-Economy," The Forecast And Australasia 1991, (London: Europa Publications Limited, 1990), pp. 1103-1104 and Asia 1991 Yearbook, p. 60.

Indonesia, Japan, South Korea, Malaysia, New Zealand, Philippines, Singapore, Thailand, and the United States. China, Taiwan, and Hong Kong have all applied for membership, though, the core of members who also belong to ASEAN fear that their organization will be overshadowed by APEC and have postponed action on the applications.<sup>149</sup>

There are two other informal organizations, the Pacific Basin Economic Council (PBEC) and the Pacific Economic Cooperation Council (PECC), which have been formed to coordinate economic, trade, and investment issues in the Pacific region.<sup>150</sup> A number of questions remain to be answered concerning specific issues to be addressed by these groups, institutional membership, funding, and a permanent location for the secretariat. Vietnam is but one of the lessor industrialized countries considered for membership; others include Cambodia, Laos, North Korea, the Pacific Island nations and Latin American nations.<sup>151</sup>

With the time approaching for the EC to formalize their trading block and with the U.S. pressing ahead with its plans to create a North American Free Trade Zone, more and more pressure will mount to form a third block in Asia. Malaysia's Foreign Minister has already presented the idea at an

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<sup>149</sup>"Fact Sheet: Asia-Pacific Economic Cooperation (APEC)," U.S. Department of State Dispatch, Volume 2, Number 31, 5 August 1991, p. 565. APEC was the idea of Australian Prime Minister Bob Hawk who feared the European Community would restrict trade after 1992 and sought an East Asian OECD. Steven Schlossstein, Asia's New Little Dragons, (Chicago: Contemporary Books, Inc., 1991), pp. 292-293 and Dick K. Nanto, "Asia-Pacific Economic Cooperation and U.S.-Japan Relations," in Economic Cooperation in the Asia-Pacific Region, edited by John P. Hardt and Young C. Kim, (Boulder, Colorado: Westview Press, Inc., 1990), pp. 58-59.

<sup>150</sup>Schlossstein, Asia's New Little Dragons, pp. 292-293.

<sup>151</sup>Nanto, "Asia-Pacific Economic Cooperation," pp. 59-65.

ASEAN Ministerial meeting, though he received a mostly negative response. Fear of creating a backlash in the U.S. and losing this lucrative market, as well as fears that the Japanese would dominate any Asian trading block, have thus far stifled any attempts to form one.

As these examples above have shown, there exists quite a diverse array of organizations which Vietnam could use to help develop its economy and integrate into the world market. However, membership in the most dynamic of these groups remains unattainable as long as U.S. foreign policy towards Vietnam is unchanged or until there is a complete settlement of all outstanding issues--Cambodia and the POW/MIA's. At the same time, the U.S. continues to lose market share in what current development is already in progress in Vietnam and credibility because of its insistence on maintaining unencumbered relations with Beijing's repressive communist regime, while refusing to grant Hanoi the same status until they alter their repressive communist behavior.

While the development and refinement of these noted organizations normally falls under the rubric of "regionalism", Southeast Asian diversity in culture, development, religion, and political ideology is creating dynamic structures of its own. A proper term for what might be called a new regional imperative is "sub-regionalism" and can already be found in the numerous bilateral and trilateral agreements which have come into existence in the last decade. Vietnam's strategic location, natural resources, and current stage of economic development lend themselves very well to this kind of association. The next section will explore the possibilities of Vietnam by-passing the larger,

and perhaps unattainable regional organizations in favor of a more "sub-regional" focus.

### 3. Sub-regionalism in Southeast Asia and Vietnam's Participation

Karl W. Deutsch, in his book The Analysis of International Relations, contends that the substance of what we know about international relations can be grouped under the headings of 10 fundamental questions. Written more than two decades ago, these questions are still relevant today, especially in regions as diverse and dynamic as Southeast Asia, and clearly focuses on problems now facing Vietnam. The ten fundamental questions are:

1. *Nation and World*: What are the relations of a nation to the world around it?

2. *War and Peace*: What are the determinants of war and peace among nations?

3. *Power and Weakness*: What is the nature of the power and weakness of a government, or nation, in international politics?

4. *International Politics and International Society*: What is political in international relations, and what is not?

5. *Prosperity and Poverty*: How great is the inequality in the distribution of wealth and income among the nations of the world?

6. *Freedom and Oppression*: How much do people care about independence from other people or countries, and how much do they care about freedom within their own country and nation?

7. *Perception and Illusion*: How do leaders and members of nations perceive their own nations, and how do they perceive other nations and their actions?

8. *Activity and Apathy*: What part, and what groups, of the population take an active interest in politics?

9. *Revolution and Stability*: Under what conditions are governments likely to be overthrown?

10. *Identity and Transformation*: How, throughout all changes, do individuals, groups, peoples, and nations preserve their identity?<sup>152</sup>

As Vietnam emerges from isolation it will have to answer these complex, interdependent questions while finding a way to solve the paradox

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<sup>152</sup>Karl W. Deutsch, The Analysis of International Relations, (Englewood Cliffs, New Jersey: Prentice-Hall, Inc., 1968), pp. 7-10.

between the needs of its people and its government's desire to maintain a political ideology which has failed and/or fallen in virtually every other corner of the world except in Asia (Cuba is the notable exception). Vietnam will be entering a world striving, as many nations now are, to redefine itself in the aftermath of four decades of the Cold War. A sure victim of the 'new world order' will be many Cold War alliances and perhaps even the bilateral treaties which helped to define those alliances. The one clear example of the end of such a relationship can be seen in what is developing in the Philippines, where colonialism-turned-Cold War alliance is succumbing to a wave of nationalism. For the Philippines the decision is very difficult, as it goes to the heart of how economically dependent Cold War clients had become on the super powers. Vietnam also knows first hand the effects of the loss of such a patron.

What will replace the Soviet Union and Eastern Bloc for Vietnam? Will China step in and fill the role out of a survival instinct to maintain communist governments along its southern borders? Will Vietnam go that far with an historical enemy whose economic conditions is only slightly better than their own or will pragmatism win out, turning Hanoi towards its Southeast Asian neighbors?

In the previous section, the discussion of regional associations took the view that Vietnam has a long way to go before it gains access to the most important groupings. These organizations all have super power members who use these forums to exert influence in the region in order to support their national interests. Smaller and weaker members have little say in the grand scheme, not wishing to jeopardize their economic ties with the West. The solution to the inaccessability to major groupings appears to be less global in

scope and draws upon shared interests of select countries without outside involvement. The same reasons--diversity of interests, cultures, religions, and development--which have to date prevented Asia from developing into a trading bloc to compete with the EC and the new NAFTA are now drawing countries with common interests, cultures, religions, and economic status together. This developing alignment can be termed "sub-regionalism" and is more immediate and compatible with the needs of the participants than are the larger groups.

In Impediments To Regionalism In Southeast Asia Hans H. Indorf suggests that, "the multilateral intra-associational projects [of ASEAN] have progressed only slowly, if at all." "Incremental regionalism," he states, "appears to have fossilized at the initial stages." Mr. Indorf also asks if the pattern of intra-governmental cooperation has really become a reality in Southeast Asia:

Many nations support regionalism as a panacea for the resolution of some of their domestic ailments. This optimism rests upon two immediate objectives: to lessen the likelihood of neighbourly conflict and to maximize national development by extending the perimeter of commercial contact. The assumption is that co-operation on small, non-ideological issues will grow over time to produce substantial benefit. Collaboration in turn would generate a political climate that could induce a broader spillover into more crucial concerns. This leads, presumably, to a structural balance in which binational contacts grow more intense and mutually rewarding, thereby minimizing negative relations. To initiate this sequential chain of events, governments must first co-operate.<sup>153</sup>

As proof of the lack of success, Mr. Indorf cites the stagnation of the ASEAN Joint Industrial Projects, which stand in contrast to the association's success in international forums. A more telling statistic is that in 1989, intra-ASEAN

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<sup>153</sup>Hans H. Indorf, Impediments To Regionalism In Southeast Asia, (Singapore: Institute of Southeast Asian Studies, 1984), p. 1.

exports accounted for only 18 percent of the grouping's worldwide exports of US\$120 billion, down from 21 percent of six years earlier.<sup>154</sup>

Depending on the point of view, ASEAN's decreasing intra-regional trade (as part of an association-based program) shows a pattern of widening splits in the political cooperation between governments or highlights the increasing economic competition between the members for available markets. One result of this disunity are economic-growth "triangles" as a solution to economic stagnation problems faced by some member economies. Three factors are required in building an economic-growth triangle: a highly developed city economy which has run out of land and a labor pool, areas adjacent to that city which abound in those two resources, and governments which share the desire to eliminate the barriers, visible and invisible, separating the city from the surrounding areas. The center of these new triangles is Singapore, which has entered into agreements linking that city to the Malaysian state of Johore and to Indonesia's Riau Islands.<sup>155</sup> Though not a perfect blend of the three requirements in all cases, these triangles serve as a model on which future sub-regional associations can be formed.

Vietnam clearly offers a viable solution to one of the three requirements-land and labor-and under its 1986 economic reforms (*doi moi*) Hanoi has been striving to make its man-power and natural resources more attractive. There has also been reforms in investment laws and other structural problems facing countries wishing to conduct business within Vietnam. There

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<sup>154</sup>Nigel Holloway, "Golden triangles," FEER, 3 January 1991, p. 34.

<sup>155</sup>*Ibid.*

is one factor, however, which continues to prevent ASEAN members from universally abandoning its reservations about Vietnam, its socialist ideology and ties with other socialist countries.<sup>156</sup> Overcoming this impediment should be Vietnam's primary concern as labor pools and markets close to cities such as Singapore become saturated and newer markets are sought.

Another reality facing the fast-moving economies in the region are the benefits under the Generalised System of Preferences (GSP-which allows certain goods to enter countries duty free based on the exporter's per capita GNP), which Singapore and the other NIC's lost in January 1989, and which Malaysia, Indonesia, Thailand, and the Philippines continue to share. This raises the possibility that those countries could improve their position as the result of increased inward investment. Once Vietnam and Cambodia emerge from the embargo and join major trading organizations like the GATT, then they too will benefit from the GSP, increasing their status as trading partners within the region.<sup>157</sup>

Vietnam already has significant trade with Singapore, Thailand, and with Indonesia, as was shown in a previous chapter. Malaysia has shown interest in increasing its contacts within Vietnam. Each of these countries view Vietnam's ruling regime from a different perspective and have based their limited government-to-government contacts on historical associations and trade patterns. As the ethnic Chinese population again increases in Vietnam, the

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<sup>156</sup>Michael Vatikiotis, "Join the club," FEER, 20 June 1991, p. 26.

<sup>157</sup>George Cho and Stephen Wyn Williams, "Trade, aid and regional integration," in South East Asian Development: Geographical Perspectives, edited by Denis Dwyer, (Hong Kong: Longman Group (FE) Limited, 1990). p. 242.

large Chinese segment of Singapore will have another reason for increasing ties, as might the Malay Chinese and the Taiwanese.<sup>158</sup> Vietnam's oil reserves and lack of refining capability could be another area linking Singapore and Vietnam in the future, given the refining plants of that island nation. Indonesia is one of Asia's largest producers of fertilizer, needed by all rice-producing nations. Vietnam, now ranked as one of the world's leading producers of rice, lost its source of cheap fertilizer when the Soviet Union moved to sever economic support. As stated earlier, the Mekong River ties southern Vietnam economically to Thailand as one of its primary upriver border countries.

These are a few examples of areas of commerce which would benefit Vietnam from bilateral or trilateral cooperation in the mold of Singapore's economic-growth triangles. Each of these would not necessarily gain the same advantages through an ASEAN-type forum, in which too many competing interests would slow development and would attempt to limit specific advantages found in the triangle-styled agreements. Vietnam needs investment and technology quickly and would be bettered served by narrowing its focus in particular areas where it can receive the greatest competitive advantage.

This chapter has examined the relationship of Vietnam to its Southeast Asia neighbors, both communist and non-communist and has reviewed where Vietnam stands in respect to regional organizations. Intra-regional relations are improving because of reforms undertaken in Vietnam from 1986 on and because of the changes brought on by the end of the Cold War. More and

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<sup>158</sup>Murray Hiebert, "Market test," FEER, 1 August 1991, pp. 24-25.

more trade between ASEAN countries and Vietnam is developing and will continue to increase because Vietnam offers the labor and natural resources needed to fuel the export-dependent countries of the region. Vietnam has moved to alter its view as a pariah by acquiescing on the settlement in Cambodia--actually accepting conditions which could give the Khmer Rouge partial control of the government. A Cambodian settlement and changes in extra-regional influence have paved the way for Vietnam to develop bilateral or tri-lateral associations within the region based on common economic interests and may prove more viable than the slower, multi-interest organizations like ASEAN or APEC.

The next chapter will focus on the two major threats to Southeast Asia, Chinese military expansion and Japanese economic domination. The view of China as a potential military threat will be based primarily on that country's development of a blue-water navy and its claims to territory in Southeast Asia. Japanese economic domination will be explained through a review of Japan's economic involvement in individual countries in the region, its need for resources held by those countries, and the use of ODA to exert political influence while at the same time retaining a significant level of control of specific projects funded by that aid.

## V. REGIONAL THREAT ASSESSMENT

The ability to define the nature of either country-specific or regional threats is undergoing fundamental change as the world emerges from forty-five years of fear that any conflict could be used as a prelude to the next global war. There presently exists a continuum along which a wide range of threats can be found; such as those to the economic security of individual countries or of entire regions, or more basic ones like those to the physical integrity and sovereignty of one or more countries. Shifts in the global balance of power have, however, irrevocably altered once predominant patron-client relationships, freeing countries from the burden of having to share in an ideological conflict thrust upon them in an era defined by the concept of "zero sum gain." Removal of this Cold War framework from the historical interaction between countries, religions, and ethnically and culturally differing peoples will return the focus of threat assessment to more immediate issues. Threat evaluations can now be made autonomously, reflecting fewer global imperatives, centering instead upon basic welfare, economics, and stability. Racial and religious imbalances; the disproportionate distribution of wealth; material factors influencing economic growth such as natural resources, finances, and markets; and the question of security needs versus the costs of security are now the most identifiable threats facing individual countries and regions as they approach the twenty-first century.

This is not to say that all threats posed by disparate ideological views have dissipated with the collapse of the Soviet Union and European communism or

that no country may again seek to dominate another for reasons other than historical antipathy. What has changed is the surrogate nature to these threats, though this change pertains more to the military nature of threats than it does to the new spectrum of economic challenges. The development of trading blocs, like the EC and the future NAFTA, can be defined as an assimilation or at least an accommodation of national interests in order to produce a collective and integrated economic ideology. Taken one step further, these "blocs" may be seen as one or more stronger economies influencing weaker ones in order to create, enhance, and implement strategies to gain specific economic and/or political advantages. This encroaching, predatory nature of the world's dominate economies, specifically Japan's in the case of Southeast Asia, forms a virulent threat to the future independence of that region.

While the economic challenges posed by Japan continue to loom large in the capitals of Southeast Asia, another threat, one with a Cold War flavor, is gaining strength. Isolated as the remaining communist super power, China appears to be rejuvenating alliances based on ideology in an effort to prevent the same encirclement it feared when Vietnam was a client of Moscow, except this time the antagonist is democracy and pluralism and not Soviet communism.<sup>159</sup> China has also been preparing to defend its claims to territory in the South China Sea by channeling its naval development towards a blue-water capability with concomitant development to support logistically this new force.<sup>160</sup> China faces no significant challenge [within Asia] to its military

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<sup>159</sup>Hiebert and Tai, "Comrades again," pp. 8-9.

<sup>160</sup>You Ji and You Xu, "In Search of Blue Water Power: The PLA Navy's Maritime Strategy in the 1990's," The Pacific Review, Volume 4, No. 2, 1991, p. 137.

strength, aside from U.S. forces stationed there, and has in the past used it as a tool of its foreign policy (the 1979 invasion of Vietnam, although a military failure, was an attempt to punish Hanoi for their invasion of Cambodia and to challenge Vietnamese hegemony in Indochina<sup>161</sup>).

The next two sections will analyze the foundations for and the true nature of these threats. The Chinese military threat will be examined first, followed by the Japanese economic threat.

#### A. THE CHINESE MILITARY THREAT TO SOUTHEAST ASIA

Since their earlier periods of dynastic conquests, the Chinese have shown little desire to undertake aggressive military campaigns outside their borders unless they felt a threat which warranted defensive or defense-based offensive actions, as in Korea. The structure of their armed forces, though extremely large in numbers, has never been offensive, but has instead been dedicated to repelling a massive land attack from the Soviets along their long northern border.<sup>162</sup>

Evidence now suggests that this purely defensive focus is undergoing review and that the Chinese military, especially their navy, is progressively acquiring the ability to project power throughout the Western Pacific and South China Sea. In 1980, Deng Xiaoping endorsed a plan to upgrade the navy's capabilities and in 1985 a new "green water" strategy was announced which extended the defense of the Chinese mainland much further out to sea.

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<sup>161</sup>Charles McGregor, "China, Vietnam, and the Cambodian Conflict," Asian Survey, Vol. XXX, No. 3, March 1990, pp. 266-267.

<sup>162</sup>Defense and Foreign Affairs Handbook (Alexandria, Virginia: International Media Corporation 1990-1991), p. 199.

To accomplish this task, three phases of modernization were detailed: the first phase extends to the end of the century and features the development of the ability rapidly to respond to attacks and to provide deterrence in seas beyond China's territorial waters. Phase two encompasses the first two decades of the 21st century and plans for the Chinese navy to have the capability to extend its power outside the waters of the Western Pacific and into oceans around the world. Phase three forecasts that after the year 2020 China will be a major sea power.<sup>163</sup>

The following is a short summary of the Chinese military capability, their order of battle.<sup>164</sup> It is critical to note that the program of modernization has just begun and that sources quote different levels of readiness, some putting the availability as low as 20-30 percent for the navy. The Chinese armed forces total over three million regular personnel, with another four million in reserve. Of these, 2.3 million are in the Army, 304,000 are in the Navy including naval air force and marines, and 470,000 are in the Air Force. The strategic forces have a small number of ICBM's (approximately 20) with ranges to 12,900 km and a 5 megaton warhead payload. A new ICBM is entering service with multiple warhead capability (MIRV). The Navy has one Xia-class nuclear submarine (with 3 more in production and 8 more planned) that can carry 12 SLBM's and three Han-class SSN nuclear submarines. The total number of submarines is in the 90's and consists largely of Soviet-styled diesel boats. As old as most of

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<sup>163</sup>You and You, "In Search of Blue Water Power," pp. 137 -141.

<sup>164</sup>All order of battle figures taken from the Defense & Foreign Affairs Handbook 1990-1991.

this equipment is, the Chinese military is second only to the U.S. in Asia, though both Japan and Taiwan have very modern, but small militaries.

Events from early 1989 to late summer 1991 have altered China's perception of its global status and have placed tremendous pressure on its aging leadership. The collapse of communism in Eastern Europe, Tiananmen Square and the return to repressive controls, and the July/August 1991 disintegration of the Soviet Union have left China with very few socialist allies and almost universal condemnation. In contrast during the same period, China chose not to use its veto power on the Security Council to oppose the West in its stand against Iraq's invasion of Kuwait and to assume a leading role in the settlement process in Cambodia. Both of the latter events have aided the Chinese in reestablishing trade and aid programs from the West and from Japan. They now face the ultimate paradox--as does Vietnam, North Korea, Cambodia, Laos, and Cuba--which is how to develop their economy along free-market guidelines while retaining a Leninist form of rule. The clearest sign of the direction Beijing is willing to move in order to sustain its grip on power can be seen in the reopening of diplomatic relations with their historical enemy--Vietnam.

Two important factors weigh in heavily on the side of possible Chinese aggression in the future: first, are its territorial claims in Southeast Asia, encompassing 18,000 km of coastline and over 3.6 million square km of territorial waters, of which two-thirds is in dispute<sup>165</sup>, and second, are the growing Chinese minority populations which can be found in nearly every

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<sup>165</sup>Ibid., p. 137.

country in the region. These population segments of Chinese nationals or ethnically Chinese citizens of the host country account for a significant percentage of the business communities in the countries in which they live, although this economic status does not always equate with political clout.<sup>166</sup>

Malaysia and Indonesia have ongoing histories of suppressing their Chinese minorities, while on the other hand, Singapore extolls basic Chinese virtues such as Confucian ethics. Vietnam, which violently expelled thousands of Chinese after their victory over the French, is only now allowing them the economic and social freedoms they once enjoyed. This widely differing perspective on the rights and role of the Chinese communities in non-Chinese countries of Southeast Asia constitutes one of the most volatile factors in the politics of Asia.<sup>167</sup> Just how protective of these enclaves Beijing becomes in the future remains to be seen. If the Chinese establish a larger and much more modern military presence in the Spratly Islands, they could be in position to exert more than diplomatic influence over the governments of Southeast Asia.

The territorial issue and its conflicts are well documented. Twice since the early 1970's China has precipitated a conflict over the use and/or ownership of islands in the South China Sea. In both instances, the confrontations were a part of a larger geopolitical struggle between China and their main protagonist the Soviet Union. In 1974 China attacked a much inferior Vietnamese force in Paracel Islands and took physical control. Then in 1988, China pressed its

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<sup>166</sup>Fred R. von der Mehden, "Malaysia In 1990," Asian Survey, Vol. XXXI, No. 2, February 1991, pp. 164-170.

<sup>167</sup>J.N. Mak, "The Chinese Navy and the South China Sea: A Malaysian Assessment," The Pacific Review, Volume 4, No. 2, 1991, pp. 150-151.

claim to a group of atolls known as the Spratly Islands and again defeated the Vietnamese forces stationed there. Behind the 1974 attack was the specter of a Vietnamese victory over the Americans and the growing fear in Beijing of a Moscow-Hanoi axis. By 1988, the Sino-Soviet rapprochement had begun and the Spratly Island conflict was a test of Soviet resolve in backing Vietnamese interests. The more recent conflict also put ASEAN's unity to a test, as their solidarity against Vietnamese aggression in Cambodia prevented those members who also have claims in the Spratlys from actively supporting Vietnam's side against China. Both events have had a lasting effect on China's relations in Southeast Asia.<sup>168</sup>

In most discussions about one country's military structure, in comparison to the forces in the region around it, two separate areas are usually examined; capability and intentions. Capability is the more objective side and data about weapons systems and troop strength is readily available from many sources. Intentions are more subjective. In most cases they have to be pieced together from official and unofficial statements to the press, from articles written by ranking authorities which are published in respected journals, predicated from the scope and type of military exercises, or from the sum of the capabilities of weapon systems under development and being purchased. Just because China has nuclear weapons, it does not follow that it would use them in all conflicts. At the same time, however, the purchase of long range fighter and attack aircraft from the Soviets, combined with an internal program to develop the capability to accomplish air-to-air refueling, could infer that the Chinese

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<sup>168</sup>Michael Leifer, "The Maritime Regime and Regional Security in East Asia," The Pacific Review, Volume 4, No. 2, 1991, pp. 130-131.

intend to increase their Spratly Island defenses and the ability to strike an enemy far at sea.<sup>169</sup>

For the present, the issue of Chinese nationals or ethnic Chinese in countries in Southeast Asia will remain a diplomatic problem. It is inconceivable that China would engage in a conflict with Indonesia over what amounts to a relatively small number of Chinese. There too is the logistics problem of moving Chinese troops into the South China Sea and supporting them in an assault against another country, neither of which China is capable of doing at this time.

China engaged in a conflict over the Spratlys has a much greater potential of occurring in the next decade. So much greater that the Global War Game 1991, held at the Naval War College in Newport, Rhode Island in July , had as one of its four major areas of conflict a battle between the Vietnamese and Chinese over the Spratly Islands.<sup>170</sup> One reason a forecast can be made about a possible conflict in the Spratlys, such as in the Global War Game 1991 scenario, is the island group's development into competing armed camps. Though the Chinese and Vietnamese receive the greatest attention because of the size and capability of their armed forces and their history of mutual acrimony, the Philippines, Malaysia, and Taiwan also occupy a number of the islands with varying levels of military forces. This physical presence in the

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<sup>169</sup>"Fueling Speculation," FEER, 21 February 1991, p. 9 and Sophie Quinn-Judge, "Cannon for fodder," FEER, 28 March 1991, p. 11. The status of the aircraft purchases has most likely changed since the attempted coup, but combined Soviet military cut-backs and the need for foreign exchange currency may keep the sale on track.

<sup>170</sup>"Global War Game 1991," Naval War College-Center For Naval Warfare Studies, Volume II, New World Order, Annex D, Appendix 4.

islands by competing forces is backed up by the two remaining Southeast Asian countries which have no claims in the Spratlys; Indonesia, on the side of its ASEAN partners Malaysia and the Philippines, and by Singapore which takes a more pro-Chinese, anti-Vietnamese stand.<sup>171</sup>

Two compelling reasons can be cited for the drive to secure unimpeachable claim to all or part of this group of more than 100 tropical islands, islets, reefs, and cays, which stretch 1000 km southwest to northeast in the South China Sea: the first and most far reaching is the possibility that significant reserves of oil exists under the sea bed within the island group, and second, is that these islands straddle one of the world's most dynamic trade routes and the centers of commerce, through which passes the air and sea lines of communication from Australia, Europe, Japan, the Middle East, as well as, Southeast Asia. The dispute is derived from the issues of sovereignty based on historical claims and occupation, and territorial claims to ocean space based on the 1982 International Law of the Sea (UNCLOS III) which relates to oil, mineral, and fishing rights. UNCLOS III has yet to be ratified.<sup>172</sup> China, both the PRC and Taiwan, and Vietnam make historical claims, where the Philippines and Malaysia's are based on modern interpretation of the extension of land boundaries and Continental shelf areas to include littoral islands like the Spratlys. These claims will only be settled through multi-party

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<sup>171</sup>"Islands in dispute," Jane's Defense Weekly, 9 June 1990, pp. 1156-1158.

<sup>172</sup>Captain P.J.A. Wyatt, "The Disputed Islands Of Spratly In The South China Sea," Yolla: Journal of the Australian Joint Services Staff College Association, Vol. 2, No. 13, 1988/89, pp. 20-22. For further explanation of the issues involved see: B.A. Hamzah, "The Spratlys: What Can Be Done To Enhance Confidence," a paper for the International Academic Conference On Territorial Claims In The South China Sea, (Kuala Lumpur: Institute Of Strategic And International Studies (ISIS) Malaysia, 1990).

negotiations, as any bilateral agreements would almost assuredly be challenged by the other claimants. China has expressed the willingness to open limited negotiations, but PRC-ROC differences would sidetrack any attempt at a settlement until their larger dispute over reunification is addressed.<sup>173</sup>

The convergence of the imminent U.S. military drawdown in Asia and the program of modernization of the Chinese armed forces, especially the navy, (which was encouraged by the U.S. as a counterbalance to the Soviet Union in Asia<sup>174</sup>) has been the main catalyst for the explosive growth of regional militaries over the last five years<sup>175</sup>. Southeast Asian nations are viewing with caution the development of not only the Chinese Navy, but those of Japan and India as well<sup>176</sup>. What separates the Chinese from the other two Asian powers is their South China Sea claims and their aggressive program of arms sales to Third World nations<sup>177</sup>, which, when looked at in a cause and effect framework, greatly adds to the instability of already unstable regions. The military participation in Tiananmen Square, the political crackdown which followed, and the events of 1991 which marked a watershed in the history of world

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<sup>173</sup>Chang Pao-Min, "A New Scramble for the South China Sea Islands," Contemporary Southeast Asia, Volume 12, Number 1, June 1990, pp. 29-35.

<sup>174</sup>Michael Richardson, "New fears of China's military power," Pacific Defense Reporter, August 1989, p. 15.

<sup>175</sup>"The Year At Sea: No 1--Continued growth in regional navies," Pacific Defense Reporter 1990 Annual Reference Edition, pp. 78-79.

<sup>176</sup>J.N. Mak, "The Chinese Navy in the South China Sea," pp. 154-156.

<sup>177</sup>Defense And Foreign Affairs Handbook, p. 200. During the period from 1981-1988 the PRC sold over US\$3.1 billion to third world countries in the Near-East and South Asia.

communism, isolating China and the few remaining socialist states, act to confirm the fears held by Southeast Asian nations about China's intentions for the future within China and for its relations with its neighbors. The collective view is that China is the greatest threat to the region.

## **B. THE JAPANESE ECONOMIC THREAT TO SOUTHEAST ASIA**

The second major threat to Southeast Asian nations does not present itself as plainly or perhaps as boldly as the Chinese military threat, where the territorial disputes and the drive for ideological survival are tangible, perceptible, and readily discernible. This threat is cloaked in the complexities of international commerce and is masked by the mistaken concept that aid and investment from powerful nations, used ostensibly to develop less powerful countries, will lead to equality among nations. Another myth about the concept of altruistic patronage is that the assistance given carries with it no strings, however thin or invisible, and that any linkage which may exist can somehow be explained as serving the greater whole of mankind in its quest for freedom and democracy.

With an economic threat there are no smoking guns, declarations of war, or lines drawn in the sand for opponents to cross. Like the mercurial nature of military intentions, economic threats must be stitched together: from a patchwork of financial maneuvers made by banks, lending institutions, and multinational corporations; from the macroeconomic policies of powerful governments and their trade and investment organizations; and from the political and diplomatic initiatives sponsored by a powerful nation acting unilaterally or in concert with other powerful nations. Economic interdependence has rendered economic threats a long-term, multi-lateral

proposition, as no single economy has the ability to control the economic future of another. The arguments over the short-term effects of an embargo against Iraq constitute a case in point, as are the embargoes led by the U.S. against Vietnam and Cambodia. However economically damaging these embargoes may have been, they have not been able to affect the desired result of causing the dissolution of those governments, even after being in existence for nearly 16 years.

One other factor must be taken into consideration when assessing the nature of an economic threat, and that is, if and when the goal of such a threat is realized, it must be asked what will the resultant strategic, political, and economic relationships be between the pursuer and the objects of the threat. An example might be taken from the well-worn North-South argument, where the developed North stands accused of exploiting the less developed South's natural resources to fuel their own economic and social growth, while withholding from the South the means (technology, education, skills, etc.) by which they might also develop into advanced societies. The contention here is that this process has not been a collection of unrelated dealings between corporations and lesser developed countries, but was a conscious, coordinated part of the post-World War II policies of the Northern democracies. Here Cold War "zero sum gain" policies have supported, either deliberately or unwittingly, economic growth programs of the North in order to strengthen their stand against communism and to prevent countries in the Third World from being subverted by the Soviet Union. This analogy can be specifically applied to Japan, who developed out of the ruins of World War II through programs initiated by the U.S., with the aim of securing the northern

flank in the Pacific against the Soviets, and whose industries were fueled by natural resources from Southeast Asia. The process has not only strengthened Japan, but propelled them far past their neighbors in economic development and into a position of world power, while very few of those resource-providing countries reaped the same benefits.

Japan's position as the preeminent economic super power in Asia and the fiscal structures developed to first achieve and then to maintain that status are the basis for its threat to Southeast Asia today. Japan's economy is export-based, so much so that their entire industrial, financial, and political ethos has come to depend on the ability consistently to increase exports year after year.<sup>178</sup> Integral to the growth of exports is their ability to secure an unlimited and uninterrupted supply of raw materials, an absolute requirement since Japan is resource-poor. This double-barreled dependency has had two effects on Japan's Southeast Asian interactions: the first relates directly to their wartime attempts to develop a "Greater East Asia Co-Prosperity Sphere" thereby securing the needed markets and natural resources in order for Japan and its conquered territories to prosper; and the second relates to Japan's willingness to subordinate its political and military development to the policies of the United States in order to concentrate on their economic development.

Japan's goal for the Greater East Asia Co-Prosperity Sphere was to supplant Western control and interests in East Asia while at the same time meeting their needs for raw materials and markets. This policy initiative was overseen by the Greater East Asia Ministry, founded in 1942 and staffed by

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<sup>178</sup>George Friedman and Meredith Lebard, The Coming War With Japan, (New York: St. Martin's Press, 1991), pp. 136-138 and 268-274.

civilians, but in reality control was exercised by the military general staff and by commanders in the conquered areas. The process advanced rather well from 1942 through 1943 until the allies were able to mount an offensive, though the Japanese never had the time to fully instigate programs of mass education, of communications and transportation development, of agricultural production advancement, and then fully integrate these countries into the Japanese economy as they had in Korea and Taiwan.<sup>179</sup> Doomed to failure because it was part of the Japanese military expansion in Asia, because of often brutal occupation policies, and because it challenged the exclusive "whites only" or "Western" colonial privilege, the concept of the Greater East Asian Co-Prosperity Sphere did, however, underscore the changing pattern of relationships between colony and ruler, between Asia and the West, and between emerging 'economic powers' and those within their spheres of influence.

The late 1940's and early 1950's saw the emergence of what may now be a modern, and for the Japanese part less military, version of the Greater East Asia Co-Prosperity Sphere. Development of the U.S. Cold War containment doctrine in Asia led to a revision of U.S. occupation policy in Japan, which in turn led to a concerted effort to strengthen the Japanese economy.<sup>180</sup> Reparation agreements were reached with those countries which had suffered

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<sup>179</sup>Fairbank, East Asia, pp. 810-812.

<sup>180</sup>Friedman and Lebard, The Coming War, pp. 102-109. Though the development of the Truman Doctrine clearly pointed to the possibility of war with the Soviet Union and highlighted the need for strong allies in Asia to support the containment theory, Japanese occupation forces were faced with their own inherent problems, such as the program of busting up the *Zaibatsu* and the economic drain on the U.S. that continued repression of industrial development within Japan was causing.

under Japanese occupation, countries which could supply Japan's raw material needs, thus leading to the reestablishment of diplomatic and trade relations. This was followed closely by the establishment of aid, credits, and loans from Japan, who was later forced to increase its aid as the result of growing anti-Japanese sentiment due to trade imbalances developing with countries that did not supply Japan with raw materials.<sup>181</sup> Japanese investment in foreign countries was also reestablished, in part to build factories, but more to secure the supply of raw materials.

What began with the Meiji restoration, has now come full circle. Started first as a realization that to develop and compete with the West in Asia, Japan would have to establish in Asia a network of suppliers of needed raw materials and markets to absorb their exports. This development process evolved through their World War II military conquests and the total military and industrial defeat, through the redevelopment period of the 1950's and early 1960's under America's sponsorship, back to a position of direct competition with the West today for the markets and products of Asia. Throughout this cycle, the two main causal factors for Japan's tentative relationships with Southeast Asia, the Co-Prosperity Sphere concept and U.S. influence in domestic Japanese politics, fed off of each other and intertwined as each influenced the direction and scope of development of Japan as an economic super power.

The question is then just how does: the structure of the Japanese economic system; their total dependence on import/export growth; their status as the

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<sup>181</sup>Fairbank, East Asia, p. 856.

leading donor of Official Development Aid (ODA); their linkage of aid, credits, and loans; and their investment policies threaten Southeast Asia? Each of these parts of the basic question contributes a specific reason for the threat.

How the Japanese economy has evolved to support and to depend almost totally on export trade expansion has been the issue most attacked by trading partners and still provides one of the most contentious aspect to Japanese relations with Southeast Asians, as it does with most of the Western world. Barriers to trade in Japanese markets have resulted in huge trade and account surpluses with most trading partners, though a number of ASEAN countries have recently experienced small surpluses with Japan.<sup>182</sup> From a peak in 1986, when Japan's account surplus was US\$94.1 billion and the trade surplus was a staggering US\$101.6 billion,<sup>183</sup> these figures, as of March 1991, stand at US\$37.0 billion and US\$66.2 billion respectively.<sup>184</sup> The year 1989 saw the first change in this balance as Japanese growth in domestic demand led growth in exports. This new pattern is reflective of a combination of an appreciation in the value of the yen leading to a fall in the value of exports and the pressure by trading partners for Japan to increase their standard of living by increasing merchandise imports. The value of imports has shown a tremendous increase,

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<sup>182</sup>Ippei Yamazawa, "Japan-U.S. Economic Conflicts and Their Impact on the Pacific-Asian Region," in Pacific-Asian Economic Policies and Regional Interdependence, edited by Robert A. Scalapino, Seizaburo Sato, Jusuf Wanandi, and Sung-joo Han, (Berkeley, California: Institute of East Asian Studies, 1988), pp. 236-237. Yamazawa states that the oil-exporting countries of ASEAN, Malaysia and Indonesia, show a surplus with Japan, but industrial exporters like Thailand run deficits.

<sup>183</sup>William R. Nester, The Foundation of Japanese Power: continuities, Changes, Challenges, (London: MacMillan, 1990), p. 374.

<sup>184</sup>"Economic And Financial Indicators," The Economist, 23-29 March 1991, p. 112.

up to US\$88.5 billion for 1989 over US\$31.8 in 1985,<sup>185</sup> though not all countries have benefitted equally from this change. The Asian NIC's, specifically Taiwan and South Korea, saw the largest increases in exports to Japan.<sup>186</sup>

An adjunct to individual trade balance inequities between countries in Asia is the growing fear that the development of large trade blocs, the EC and NAFTA, will hurt trade between the developing countries in Asia and both Europe and the U.S., Asia's two largest markets. (In 1989 the U.S. imported US\$90.5 billion from Asian NIC's, ASEAN, and China, 50 percent more than Japan imports from these countries.<sup>187</sup>) This will force Asian countries to supplant those markets with ones in Asia or elsewhere and will disproportionately hurt smaller countries who will have to compete with economic giants like Japan and the NIC's.<sup>188</sup>

The structure of the Japanese economy has a vulnerability built into it because of their dependence on the importation of raw materials to support their export trade. To what extent this structural dependency will continue to

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<sup>185</sup>"Trade," Asia 1991 Yearbook, p. 29.

<sup>186</sup>Yukio Noguchi, "Japan's Economic Policies and Their Regional Impact," in Pacific-Asian Economic Policies and Regional Interdependence, edited by Robert A. Scalapino, Seizaburo Sato, Jusuf Wanandi, and Sung-joo Han, (Berkeley, California: Institute of East Asian Studies, 1988), p. 53.

<sup>187</sup>Nigel Holloway, "Reluctant converts," FEER, 11 October 1990, p. 73.

<sup>188</sup>The early to middle 1980's saw a disparity in growth between developed countries like Japan and the U.S. and the developing countries of ASEAN. Exports from ASEAN countries to the developed countries grew at a slower rate than their GDP's while their imports grew faster than their GDP's. This disparity favored the developed countries, contributing to their growth, at the expense of the developing countries who began to run trade deficits. If trade blocs limit imports from ASEAN countries, again causing a disparity between exports and imports of growth-required industrial goods, a similar situation will occur to that experienced during the recession of the early 1980's. Ippei Yamazawa, "Japan-U.S. Economic Conflicts," pp. 220-221.

be a threat to Southeast Asian economies in the future may be found in the answers to these three questions: how will Japan respond to trading bloc developments in Europe and North America (such as the imposition of trade barriers or other moves to limit Japan's market share) and to increased pressure from these unions to further open Japanese markets; will market liberalization in Japan be able to balance new demands to increase imports from the developing countries in Southeast Asia without causing a reduction in current levels of trade with the NIC's; and what level of macroeconomic/institutional control will ASEAN countries be willing to accept from Japan (like the development of a Yen denominated bloc replacing the larger percentage trade now denominate in dollars.)<sup>189</sup>

Japan's import/export dependency, a major aspect to their economic threat, will only increase as Japanese demand for supplies of raw materials for both their domestic and export industries increases, making Japan increasingly dependent upon foreign countries for its survival. The current balance of trade statistics, which remain strongly in Japan's favor, would seem to contradict this dependency. However, the value-added factor for exports of manufactured goods over the costs and availability of imports of raw materials gives a more telling picture, as does the composition of imports and their countries of origin.

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<sup>189</sup>Nigel Holloway, "Reluctant converts," pp. 72-73. The question to be answered by Asian countries concerning the development of a Yen bloc requires weighing advantages against disadvantages of such an arrangement. The advantages are, simpler exchange procedures and less risk of pegging individual currencies to the value of the Yen and the benefits of the leading country in the bloc having a very low inflation rate, forcing other members to adopt similar policies. The disadvantages are the loss of independence each country has in determining its monetary policies and the foregoing of perhaps a large percentage of dollar-denominated trade, which currently is much larger than total trade with Japan or with any other combination of Asian countries.

A breakdown of the most critically needed materials, where they originate, and the possible effects from a disruption in their supply will clearly show how vulnerable Japan may have become and also forms one of the major bases for their threat to Southeast Asia. The following is a table of the percentage of Japanese imports of mineral commodities by weight from 1987:

Commodity	% Imported
Coal	87.66
Oil & Petrol	99.72
Natural Gas	99.94
Iron Ore	99.76
Copper	99.20
Nickel	100.00
Bauxite	100.00
Lead	91.36
Zinc	85.46
Manganese	100.00
Molybdenum	100.00
Chromium	79.39
Tungsten	82.18
Titanium	100.00

Table 2<sup>190</sup>

The data which this table provides graphically shows the level of Japanese dependence on imports of materials for its export industries. Greater than any other developed country, Japan depends on this significant and perhaps tenuous level of supply of raw materials from foreign sources. The oil shocks of 1973 and 1979 demonstrated this vulnerability to an interruption of a critical commodity, and the 1990 Kuwait crisis, where the U.S. sought to insure the long-term stability of oil supplies, was in contrast to the Japanese need to prevent a short-term disruption which its economy could not tolerate.<sup>191</sup>

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<sup>190</sup>Friedman and Lebard, The Coming War With Japan, pp. 8-9, from their Table I-1.

<sup>191</sup>Ibid., pp. 9-10.

Japan's dependency on mineral imports from foreign sources is only slightly greater than their requirement to import food. Though self-sufficient in rice production, another contentious issue between Japan and its trading partners, is that 85 percent of its wheat, 70 percent of its barley, and 97 percent of its oil seed must be imported. Although these figures are large, they do not have the impact on Japan's survival as do those from the mineral commodities. The ease of food substitution and Japan's diversity in export markets makes Japan secure in the free-market world.<sup>192</sup>

Three specific import commodities--oil, iron ore, and coal--account for nearly 70 percent of Japan's total imports by weight. The sources of these commodities clearly identify Japan's vulnerability in the import market. Oil is of greatest concern and though Japan has become one of the most efficient users in the world, they still must import virtually all of their supply, 65 percent of which comes from the Persian Gulf. Before World War II, East Asia, China, and the U.S. were the major suppliers, with East Asia and China contributing no more than 20 percent. Since the war, the Persian Gulf has replaced the U.S. as the principle supplier. The cumulative effects of the pre-war oil embargo by the U.S. and the disruptions in the Persian Gulf, the 1973 and 1979 shocks, the 1989 and 1990-91 Kuwait crisis, are not lost on the Japanese, who understand their dependence and how susceptible to disruption the trade routes bringing oil to Japan have become.

Japan imports its eleven most important minerals from only eighteen suppliers and as an example: Malaysia and Indonesia, of the six suppliers in the

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<sup>192</sup>Ibid., pp. 163-164.

Pacific, supply 30 percent of four out of nine critical minerals.<sup>193</sup> Because of their locations, these supplies of minerals must flow through the South China Sea in order to reach Japan the most economical way, as do all supplies from the Persian Gulf and Indian Ocean suppliers. As stated in the previous section on the Chinese threat, the Spratly Island dispute portends a very real danger to shipping in those waters should hostilities reoccur.

The Persian Gulf War of early 1991 and the pressure placed upon Japan to assume a greater measure of the burden of defending the world's supply of oil led to a late, but not insignificant, deployment of mine countermeasure ships to the Gulf. American presence in Asia is being reduced by budgetary constraints, lessening of Cold War tensions, and by nationalism in former allies like the Philippines. It is no stretch to assume that Japan will take some steps to secure its interests in the Southeast Asian region, either its sea lanes of communication or its considerable investments, or both (in effect going beyond the 1,000 nm sea lane protection zone they now patrol by agreement with the U.S.<sup>194</sup>) What remains to be seen is the scope of such a move, granting that there are still significant anti-Japanese feelings in the region. The lack of consensus among ASEAN nations on a security framework, as another aspect of their economic and political organization, may be as important a contributor to a perceived security vacuum in Southeast Asia as is the reduction in America's military posture in the region.

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<sup>193</sup>Ibid., p. 172, data taken from Table 7-4.

<sup>194</sup>Chaiwat Khamchoo, "Japan's Role in Southeast Asian Security: "Plus ça change...," Pacific Affairs, Vol. 64, No. 1, Spring 1991. For information on Japan's capability to defend these sea lanes see Gordon Jacobs, "Japan: guarding vital sea lanes," Jane's Defense Weekly, 13 January 1990, pp. 64-65.

The third aspect of the Japanese threat is their program of providing Official Development Aid (ODA) tied to the business interests of Japanese corporations. In 1988 Japan became the world's leading donor of aid, dispensing almost US\$10 billion to the U.S.'s US\$8.9 billion and in 1990 their share of the world's total ODA reached 19.3 percent.<sup>195</sup> But what the Japanese sow they also reap, as a majority of the aid is tied to the purchase of Japanese goods and services, which acts like an export subsidy for Japanese companies. Even for loans officially designated as untied, the reality is that bidding is open to only Japanese firms and companies of recipient nations. As Japanese firms are more efficient, they receive almost 100 percent of the contracts.<sup>196</sup>

Who receives Japanese aid is also significant. Japan is the largest bilateral donor of aid in every Asian country except Vietnam, Cambodia, Laos, Malaysia, and Pakistan. Indonesia, which is a major supplier of oil and minerals to Japan and whose territory is strategically located along the sea routes from the Persian Gulf to the South China Sea, (13 percent of Japan's oil comes from Indonesia and another 65 percent travels through Indonesian waters from the Persian Gulf) is the top recipient of ODA from Japan. In 1988, almost 18 percent of Japanese development loans went to Indonesia and forecasts for 1990 increase that total to over US\$2 billion in grants and loans.

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<sup>195</sup>William R. Nester, The Foundation of Japanese Power, p. 375 and Friedman and Lebard, The Coming War With Japan, p. 284.

<sup>196</sup>William R. Nester, The Foundation of Japanese Power, pp. 375-377. Bruce Koppel and Michael Plummer write that "Japanese experts and consultants typically put in design specifications that only Japanese firms can supply. This supports a view that a primary objective of Japan's ODA activity is to develop Japan's consultancy industry and promote Japanese business." "Japan's Ascendancy As A Foreign-Aid Power," Asian Survey, Vol. XXIX, No. 11, November 1989, p.1051.

Its also interesting to note that for 1989, over half of Indonesia's exports went to Japan, 60 percent of its oil and that 36 percent of Indonesian debt is owed to Japanese institutions or to the Japanese government.<sup>197</sup> This tied development aid has produced another side, evidenced by the Indonesians freeze on aluminium exports to Japan from their Asahan plant in 1988, one of Japan's largest overseas investments. The Indonesians wanted to divert up to 60 percent to domestic use and were angry over the lack of transfer of technology. This is but one case which highlights the effects of Japanese aid and investment policies, which benefit Japan at the expense of the host country. Another example of the deliberate nature with which the Japanese dispenses aid, one that helps them keep in favor with the United States, is their aid to the Philippines.

The final segment of the Japanese threat is their past willingness to allow American foreign policy to drive their political and military development. Their constitution, given them during the occupation, prohibits them from rebuilding an armed force for other than defense of their homeland. It was this constitutional prohibition which helped to create a paradox when the U.S. wanted Japan to assume a greater share of the burden during the Gulf War. The entire episode forced Japan to begin the process of reassessing the viability of the constitution with respect to Japan's role in the new world order, to begin asking whether the U.S. is exerting too much influence on internal

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<sup>197</sup>Adam Schwartz, "Price of security," FEER 27 September 1990, pp. 56-57. Indonesia's debt stands at approximately \$45 billion and a substantial portion of it is denominated in Yen and not dollars, and has been adversely affected by the appreciation of the Yen. Koppel and Plummer, "Japan's Ascendance," p. 1050.

Japanese policy<sup>198</sup>, and to begin taking soundings in countries in Asia as to the scope of Japan's future role. With the U.S. policy of containment overtaken by events, and therefore Japan's role as the linchpin of the Pacific defense, how much longer will the Japanese submit to limits on their ability to develop their own weapons and space program by being forced to buy the technology from American companies at unfair prices and which they could produce themselves? How much pressure will Japan take to open its markets while the U.S. pushes ahead with plans to create the NAFTA?

The answer may well lie in Japan's reduction in exports to the U.S. over the last few years and their diversification of sources of raw materials, both lowering their dependence on, as well as their overall balance of trade with the United States. Along with this diversification have come the reemergence of the charges that Japan has achieved its Co-Prosperity Sphere in Asia and with it the economic influence it exerts over the region. Tied aid, investments primarily in Japanese-owned companies in foreign countries, and the lack of transfer of technology are symptoms of the way Japan has on the one hand bent to the U.S. Asian initiative of aiding developing nations, while on the other securing control over important industries and sources of vital materials. Although domestic spending programs are now receiving a larger percentage of GNP in Japan, their economy is still dependent on exports, and therefore by consequence imports, perpetuating their vulnerable situation which may inevitability lead Japan to supplement its economic interests in Southeast Asia

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<sup>198</sup>The entire subject of U.S. influence on Japanese political decision making and defense related issues was already a matter for concern in Japan before the Gulf War and was forcefully addressed by Shintaro Ishihara, in The Japan That Can Say No, (New York: Simon & Schuster 1989).

with a military/security role. Sooner or later some factor; competition from other countries limiting the supply of some vital mineral, a bilateral dispute causing a disruption to sea traffic in the South China Sea, or perhaps a sub-regional trading bloc develops which exerts control over the availability of strategically important materials, will force the Japanese to act aggressively in their own interest. Their vulnerability almost forecasts this as a real possibility, as the Persian Gulf War has shown the world that even small countries can, if they threaten the vital interests of more powerful countries, precipitate a conflict.

China's threat to Southeast Asia is plain. Its territorial claims in the region will be very difficult to resolve given the diversity of interests of those countries who oppose each other over claims to the islands. Japan's threat, on the other hand, has no simple, easily definable focus. It can not be labeled a government-led program, though government institutions, such as MITI, work in concert with private corporations to keep Japan economically strong and growing. Koppel and Plummer state in their article on Japan's ascendancy as a foreign-aid power:

....one is drawn to the conclusion that while Japan's influence in Asia through economic cooperation is enormous, levels of interaction in ODA have not advanced to a point where Japan can extract predictable policy outcomes from the commitments. This does not mean, of course, that there are not now, nor could in the future be those within Japan's inner circles who would want to see ODA and other tools of economic cooperation managed far more aggressively--for example, utilizing political and security instruments as well--to serve such Japanese economic needs as competing with EC integration in 1992 or economic integration in North America.<sup>199</sup>

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<sup>199</sup>Bruce Koppel and Michael Plummer, "Japan's Ascendancy," pp. 1055-1056.

China's military threat, if pressed, could require another coalition to be formed to resolve the dispute, as conflict in the South China Sea could so disrupt trade that many countries would be affected. Japan's threat has no such discernable front and those countries in which Japan has developed a certain level of economic or industrial dominance have benefitted from the infrastructure improvements Japan has made to enhance their own interests. But let there be no mistake, both threats are real. The Chinese either now possess or are acquiring the capability to press their claims to those territories and their isolation as the remaining communist power might emphasize the need to secure access to the oil reserves and control of the sea lanes in the Spratly Islands. Japan's economic structure mandates that they continue to expand their economic influence and control, especially since the U.S. guaranty of security in the region is lessening and competition with the U.S. for markets in Asia is becoming heated. Japan's vulnerability caused by their dependence on a vast supply of imported raw materials, much of which coming from the countries in Southeast Asia, is forcing Tokyo to use a wide number of financial initiatives, tied ODA and direct foreign investment among others, to secure control of the source of these vital commodities. This growing control, not unlike the Greater East Asia Co-Prosperity Sphere of the 1930's and 1940's, threatens the sovereignty and independence of those nations which are rich in the materials needed by Japan and which have been seduced by high levels of aid and investment without measuring the long-term effects of its Japanese influence.

The new post-war world presents Japan and China with a set of circumstances which may result in either or both being forced into an attempt

to assume the role of regional leadership (nay hegemon) and with it perhaps a greater burden than either are willing or able to handle. Memories of Japanese occupation in World War II of the countries of Southeast Asia remain vivid and when the subject of U.S. military presence is discussed, more often it is referred to as preventing the rearmament of Japan rather than for the general peace and security of the region. Even though many Southeast Asian nations have Chinese populations or some Chinese heritage, memories of Chinese sponsored insurgents and the instability they brought are as fresh as those for the Japanese occupation. The thought of domination by either China or Japan is cause for alarm in Southeast Asia and U.S. policy must be sensitive to this consideration.

How are U.S. and Vietnamese interests affected by these threats? Are U.S. interests best served by the current policy towards Vietnam? How should the U.S. respond to these threats from China and Japan today or in the near future? The next chapter looks at these questions by addressing U.S. regional interests, U.S.-Vietnamese relations, and U.S.-Vietnamese relations as a part of U.S. relations within Asia as a whole.

## VI. VIETNAM AND THE UNITED STATES

Alphonse Karr wrote in *Les Guêpes* in 1849, "Plus ça change, plus c'est la même chose." The more things change, the more they are the same. This observation is a very accurate description of U.S. foreign policy with respect to Vietnam and perhaps to Asia as a whole. The spectacular upheavals in the world order, which have been occurring unabated since 1989, appear to have had little or no impact on America's concept of its changing role in this dynamic region, or to the changing nature of U.S. bilateral interactions with individual countries there. Policy makers in Washington are still attempting to apply decades old and patently Euro-centric logic (specifically the continued reliance on Cold War-generated treaties and a primary emphasis on security and American military commitment) to relations and situations which demand not only a unique Asian perspective, but which require a complex blend of knowledge of regional historical interactions and an understanding of current and future national interests within the region. While the U.S. was concentrating on containing a perceived communist threat, the competitive trade advantage with Asia was lost, as was the lead in many technologies, manufacturing fields, and in most economic categories except import market share. But instead of shifting the focus of policy formation over to regaining the economic dominance of the 1960's and early 1970's, Washington continues to stress its military role as the ultimate guarantor of peace and stability and

has been placing too much emphasis on the relative value of this capability over other more basic economic interests such as banking and finance.<sup>200</sup>

In his address at the University of California at San Diego on 30 October 1990, entitled "Asian Security in the 1990's: Integration in Economics, Diversity in Defense," Richard H. Solomon, the Assistant Secretary of State for East Asian and Pacific Affairs, talked of the stunning rush of events in Europe and in U.S.-Soviet cooperation, of the world-reshaping developments brought on by technological change, world-wide economic integration, and the wide-spread movement towards market oriented economies and political pluralism, and a renascent ethno-nationalism and the re-emergence of regional antagonisms and ambitions frozen during the Cold War confrontation. He encapsulated the U.S. policy perspective in one of his first paragraphs:

We now face a future in which technological and commercial capabilities more than military strength are the significant determinants of state power and influence. National security is ever more reckoned in terms of economic and environmental concerns. Increasingly, geo-economics is shaping geopolitics.<sup>201</sup>

Unfortunate as it may seem given the insight shown by Mr. Solomon in assessing the global impact of economics, the majority of Mr. Solomon's speech dealt exclusively with the evolving U.S. military commitments in Asia, current and future military threats, and the need to maintain Cold War-generated treaties to allow the U.S. to continue its role as the "balancing wheel"

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<sup>200</sup>Carl Walter, "How U.S. Banks Opted Out of Asia," Asia Wall Street Journal, 6 August 1991, p. 6.

<sup>201</sup>Richard H. Solomon, "Asian Security in the 1990's: Integration In Economics, Diversity in Defense," a speech given at the University of California at San Diego, 30 October 1990, U.S. Department of State Dispatch, Volume 1, Number 10, 5 November 1990, p. 243.

in the security structure of East Asia and the Pacific. This is an unmistakable sign of how limited U.S. policy makers have become at specifically addressing the significant determinants of state power outlined above. Only near the end of the speech did he venture into the realm of economics and then only to promote the Asia Pacific Economic Cooperation (APEC) forum and not to address specifically how the U.S. might reverse its decline as the leading economic power in Asia or what constitutes a diversity in defense when he has called for maintaining the status quo in U.S. security commitments in Asia. His conclusion returned again to the issue of security, its function in producing a stable trading environment, and how the U.S. must "focus efforts to enhance security on the true sources of tension."<sup>202</sup>

This speech was widely seen as a major policy pronouncement and nothing since has altered its approach one bit. President Bush's Aspen speech, which gave the public its first view of the "reconstitution strategy" and those given since by Secretary of Defense Cheney and Chairman of the Joint Chiefs of Staff General Powell, continue to show a primary European focus while simply maintaining the status quo in the Pacific. Two straight forward questions arise from this policy: first, if primarily through its military might is the U.S. able to maintain any semblance of presence and power in Asia (besides providing the largest market for Asian manufactures), might not the U.S. then be on a collision course towards another conflict in Asia, and second, is there an alternative to this security-first approach, one more along the lines

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<sup>202</sup>Ibid., pp. 244-249.

of comprehensive security with its compromises on ideological, religious, and political issues in order to strengthen economic interaction and growth?

The following three sections will examine U.S. interests in Southeast Asia, U.S.-Vietnamese relations and how they affect the region, and U.S.-third party relations centering on Vietnam and Southeast Asia.

#### A. U.S. INTERESTS IN SOUTHEAST ASIA

Reading about Richard Solomon's speech in the introduction to this chapter, one could perhaps form the opinion that U.S. interests in Asia have a strong imperial tone, lack the breadth of vision usually associated with leadership, and may indeed lead America back into conflict somewhere in the region. In reality, there probably is as much truth to that opinion as there is exaggeration. An example of how rooted in military thought American foreign policy has become can be found in a speech given by Robert M. Kimmitt, the Under Secretary of State for Political Affairs, to the American Bar Association's Section on International Law and Practice in Washington, D.C. on 25 April 1991. In his section on the Economic Elements of National Security Policy, Mr. Kimmitt states:

First, there is the basic point that a robust and advanced industrial economy is the bedrock upon which rests America's military and political power. In practical terms, this means that a modern industrial base is essential to the maintenance of American military superiority. Our triumph in Operation Desert Storm was in large measure a triumph for American industrial and technological prowess.<sup>203</sup>

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<sup>203</sup>Robert M. Kimmitt, "Economics and National Security," a speech before the American Bar Association's Section on International Law and Practice in Washington, D.C. on 25 April 1991, U.S. Department of State Dispatch, Volume 2, Number 22, 3 June 1991, p. 399.

This would seem to infer a 'who came first, the chicken or the egg' type of question to U.S. military presence in Asia, if not the entire world. Is our military's main purpose to promote economic growth or is our main industrial goal the global superiority of our military? Some could argue that the military arms race of the 1980's actually hurt economic growth and left the country with an unmanageable deficit, while others could point to the fact that without substantial monetary contributions from other nations the U.S. would have been hard pressed to have undertaken Operation Desert Storm.

How does all of this relate to Southeast Asia? Implicit in both the Solomon and Kimmitt speeches is the idea that American political, economic, and military influence has been an essential element in the growth and stability of the region and without continuing these influences, economic stagnation, confrontation, and conflict might result. To imply that the U.S. has been substantially involved in the region is correct. However, the notion that U.S. involvement has been such that [without it] little or no development would have taken place is perhaps an overstatement.

Explicitly, both speeches extolled the virtue of forward basing of American troops, suggested that the new multi-polar world will experience an explosion of regional conflicts, and in the Kimmitt speech, that America's response in Desert Storm completely validates both of the previous observations. What neither speech sought to explain were those national interest factors which were present in the Persian Gulf which will not always be present in future regional conflicts, and without which, the U.S. may choose to not become involved. To imply then, as an extension of the logic for U.S. intervention in the Persian Gulf, that forward based U.S. forces would be used in regional conflicts

in Asia fails to account for the lack of a similar national interest and ignores recent history. American forces based in Asia did not become involved in Cambodia when the Vietnamese invaded or when the Chinese and Vietnamese fought over the Spratly Islands. The presence of U.S. forces has had an effect on the stability of the region, but that effect has been more limited than either of these speeches implies.

Setting the military issue aside and focusing now on economic issues, the U.S. should be as concerned about its overall position in Asia as it is about Europe. In 1990, the U.S. two-way trade with East Asia was about US\$300 billion or about 34 percent of U.S. global trade and was 37 percent larger than the two-way trade across the Atlantic. Of that US\$300 billion, US\$46 billion was with the ASEAN countries, making them America's fifth largest trading partner. In 1989, direct U.S. investment in the region totaled US\$55 billion, 15 percent of U.S. overseas investment, and produced 18 percent of foreign investment income.

For the same year, 1990, East Asia accounted for 74 percent of the U.S. trade deficit of US\$102 billion. Broken down, the U.S. had a deficit with Japan of US\$41 billion, with Taiwan of US\$11 billion, with China of US\$10 billion, and with South Korea of US\$4 billion. The remaining US\$9 billion was spread among the ASEAN countries and Hong Kong.<sup>204</sup> What these figures mean is that the U.S. imports approximately 25 percent more from those countries than it exports.

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<sup>204</sup>These statistics were taken from three articles, "Fact Sheet: Association Of South East Asia Nations (ASEAN)," "Fact Sheet: Asia-Pacific Economic Cooperation (APEC)," and "Gist: US Economic Relations With East Asia and the Pacific," U.S. Department of State Dispatch, Volume 2, Number 31, 5 August 1991.

ASEAN, as a trading "bloc" is rapidly gaining ground as a market for American exports. As mentioned above, ASEAN is now America's fifth largest market behind Canada, Japan, Mexico, and the EC. Trade with ASEAN between 1988 and 1990 increased 37 percent. The U.S. now exports more to Singapore than to Spain or Italy, more to Malaysia than to the Soviet Union, and more to Indonesia than to all of Eastern Europe put together.<sup>205</sup> At the same time, the U.S. is ASEAN's largest export market. In fact, America buys half of all developed country imports of developing country manufactured exports.

There remain, however, a number of economic issues which continue to cause tension between the U.S. and the countries of Southeast Asia. The trade deficit rightfully receives the most attention because it embodies several considerations which the U.S. labels as impediments. These impediments include exchange rate policies, barriers not only to specific goods, but to many forms of services and investment, macroeconomic policies which have limited domestic demand in favor of exports, and the issue intellectual property rights. On the other side, the U.S. must reduce its own fiscal imbalances or it will face continued pressure from the industrial sector to erect import trade barriers or to raise tariffs to protect U.S. manufactures. Asian exporters are most often seen as the villain in trade disputes; the villainy of American importers is easily overlooked by American negotiators and the American public.

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<sup>205</sup>Robert Kimmitt, "U.S.-ASEAN Relations," remarks at the 10th ASEAN-U.S. Dialog, Washington, D.C. 20 June 1991, U.S. Department of State Dispatch, Volume 2, Number 26, 1 July 1991, pp. 473-474.

The U.S. must acknowledge that in all areas--banking, trade, investment, aid, manufacturing, technology--economic strength will soon supplant military power, no matter how dominant, as the main determinant for world leadership. Southeast Asia was just beginning to emerge from under its colonial masters when the Cold War involved most of the region in an ideological battle which was as much about competing economic systems as it was about the struggle between freedom and imperialism. Today, free-market economies are as scarce as true democracies in Southeast Asia but in most countries, improving the standard of living far outweighs most political concerns. It is on this level, therefore, that the U.S. must concentrate its efforts, and rely less on the military-industrial linkage stressed so strongly in the Solomon and Kimmitt speeches.

## **B. U.S.-VIETNAMESE RELATIONS**

Relations between the U.S. and Vietnam have not been as static as the description of the embargo and the lack of formal ties would seem to indicate. There have been three levels of contact: the highest priority issue between Washington and Hanoi has been that of the MIA/POW's; next has been the conditions which Vietnam must meet in order to resume normalized relations with the U.S. and to have the embargo lifted; and last is the issue of refugees. The current status of each of these issues is reflective of the changes not only within the region, but at the global level as well.

### **1. POW/MIA's**

The issue of those soldiers missing-in-action or possibly still being held prisoner, as attested to in Chapter II, remains highly charged in the United States and is equally sensitive in Vietnam. Hanoi counters the U.S. position on

MIA/POW's by asserting that cooperation should run both ways and that Washington should consider aiding Vietnam account for its 20,000 MIA's from the war.<sup>206</sup> The year 1991 has seen unprecedented exchanges on this issue, dispelling the myth that the Vietnamese are still using these soldiers as pawns in their international relations. In June, the Deputy Director of Vietnam's MIA office, Ngo Hoang, visited the U.S. Joint Casualty Resolution Center in Honolulu and in July, Representative Lane Evans (D-Ill.) led a veterans group to Vietnam to discuss possible roles for a non-government office to assist the official U.S. government office in resolving the issue. Representative Evans said that the Vietnamese are eager to provide an unlimited latitude of investigation without prior notification.<sup>207</sup> The U.S. Defense Intelligence Agency's analyst working in the reopened MIA office in Hanoi told the press on 1 August 1991 that they have received [from the Vietnamese] very effective cooperation and he finds it hard to see just how much more cooperative they could be.<sup>208</sup> Numerous other visits by veterans, non-government organizations, and family members of MIA's have taken place in 1991 and all report high levels of cooperation.

The Reagan administration used the MIA issue to drive its foreign policy towards Vietnam, but the Bush administration appears to be altering

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<sup>206</sup>Dick Clark and William Nell, "Conference Report," The American-Vietnamese Dialogue, (Queenstown, Maryland: The Aspen Institute, 1991), p. 5, the second symposium held by the Aspen Institute on U.S.-Vietnamese relations, held 11-14 February 1991 in Montego Bay, Jamaica.

<sup>207</sup>"Vietnam: MIA officials visit Hawaii and Congressional delegation discusses POW/MIA," Indochina Digest, 12 July 1991.

<sup>208</sup>"U.S. Policy: U.S. MIA team in Hanoi reports cooperation," Indochina Digest, 2 August 1991.

that approach. As noted earlier in this thesis, the administration has indicated that "no hard evidence" has been uncovered to substantiate the claims of large numbers of POW/MIA's and that normalization and an end to the embargo should be based on other issues such as a settlement in Cambodia. In fact, Senator John Kerry (D-Mass.), a Vietnam War veteran, has called for an end to the embargo as an incentive to Vietnam to provide the U.S. with greater levels of cooperation and access to information. This call came after he led a mission to Indochina in August of 1991 to resolve the issue.<sup>209</sup>

## 2. Conditions for Normalization

In April 1991, Assistant Secretary of State Solomon outlined the "road map" for the resolution of issues between the U.S. and Vietnam which would lead to normalization of relations and an end to the embargo.<sup>210</sup> Besides the MIA issue, the four main conditions were based on a settlement in Cambodia and Vietnam's willingness to accept the U.N.-sponsored plan. In review, this plan would settle the division of power between the warring factions leading up to and during free elections. Vietnam's objection was to a part of the plan that would dismantle most of the Hun Sen government in Phnom Penh during the peace process possibly leading to a seizing of power by the Khmer Rouge. The Supreme National Council, a coalition body founded as a power-sharing interim government in Cambodia made up of members of each of the factions,

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<sup>209</sup>"Vietnam: Kerry: Lift embargo, find MIA's," Indochina Digest, 16 August 1991.

<sup>210</sup>Richard H. Solomon, "Cambodia and Vietnam: Time for Peace and Normalization," U.S. Department of State Dispatch, Volume 2, Number 16, 22 April 1991, pp. 281-286, taken from a statement before the Subcommittee on Asian and Pacific Affairs of the House Foreign Affairs Committee, in Washington, D.C. on 10 April 1991.

has apparently resolved the disarmament and administrative disputes and is set to formally adopt the plan in late October, 1991.<sup>211</sup>

Secretary Baker, after an ASEAN meeting in Kuala Lumpur, said that the Vietnamese have come "a significant distance" towards normalization. His remarks appear to move the U.S. beyond the "road map" formula and is based more on "full cooperation" and "movement towards a comprehensive settlement."<sup>212</sup> However, forces within the administration must not share in the Secretary's viewpoint as the President extended the embargo on Vietnam and Cambodia for another year on 13 September 1991. The extension was in the form of a presidential determination titled "Extension of the Exercise of Certain Authorities Under the Trading With the Enemy Act."<sup>213</sup> This latest move flies in the face of criticism over what is seen as inconsistent policy formation by the Bush administration. Pushing for continued engagement with China as the only practical course to encourage change, the administration's continued policy of disengagement with Vietnam makes no sense.<sup>214</sup> President Bush's extension not only complicates attempts to resolve issues such as the MIA/POW's, but puts American businesses further behind in securing entry into Vietnam's evolving market.

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<sup>211</sup>"Cambodia factions to sign accord ending civil war," SJMN, 21 September 1991, Sec. A, p. 8.

<sup>212</sup>"U.S./Vietnamese Relations," Indochina Digest, 26 July 1991.

<sup>213</sup>"Trade/ Investment: Embargo renewed," Indochina Digest, 20 September 1991.

<sup>214</sup>"Vietnam: Senator says U.S. policy inconsistent," Indochina Digest, 12 July 1991.

### 3. Refugees

This third issue is not a bilateral problem between Vietnam and the U.S., but involves most countries in Southeast Asia, Hong Kong and its British-Chinese transition, as well as, Canada, the U.S., and Australia. Whether political repression or economic survival is the reason behind the flood of Vietnamese seeking to immigrate, the results have been equally disastrous. Thousands of Vietnamese remain in camps in "first asylum" countries, burdening those governments, and have become pawns in the international relations between Hanoi and the affected countries. Forced repatriation has become a major issue as Hong Kong moves to end its status as a first asylum country (theoretically a stopover for refugees along their way to permanent immigration countries). The process of establishing asylum or immigration status is slow and nearly impossible. Proving previous repression, as those who have escaped "re-education camps" try to do, or alleging that punishment awaits them if they are returned, is rarely possible given that few Vietnamese records are available for examination.<sup>215</sup>

Another facet of the refugee issue is the Orderly Departure Program (ODP) for former political prisoners seeking to come to the United States. The U.S. takes in Vietnamese citizens associated with our country and its citizens by work or family ties, including Amerasians. In 1991, the U.S. doubled the

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<sup>215</sup>"Vietnam agrees to take back refugees," SIMN, 3 October 1991, Sec. A, pp. 1 & 14.

number of those interviewed for the ODP, to 10,000 per month and this is expected to double the number of those allowed to emigrate to America.<sup>216</sup>

The refugee issue depends on multi-lateral negotiations between affected countries, both first asylum countries in Asia and final immigration countries like the U.S., Canada, and Australia. The embargo is also becoming an issue in the refugee problem, as a group of senators from the U.S. have, in part, based their call for legislation ending the embargo on the question of refugees and Vietnam's economic ability and willingness to settle the problem.<sup>217</sup>

These three areas, the MIA/POW's, requirements for normalization, and refugees, have all been used as part of Washington's foreign policy agenda, which has its roots in the Cold War. Scant mention has been made of China's responsibility for the approximately 8,000 MIA's from the Korean War, but Vietnam continues to be held responsible for 1,670 missing after more than ten years of fighting and 16 years since the fighting ended. Conditions for normalization, as in Secretary Solomon's road map, have been a moving target which may never be completely met since they depend on the outcome of elections in another country which receives only questionable influence from

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<sup>216</sup>Richard H. Solomon, "Vietnam: The Road Ahead," U.S. Department of State Dispatch, Volume 2, Number 18, 6 May 1991, pp. 331-332, taken from a statement given before the Subcommittee on East Asian and Pacific Affairs of the Senate Foreign Relations Committee on 25 April 1991. In 1990, the U.S. resettled in America two-thirds of total number of Vietnamese immigrants, refugees, and Amerasian immigrants, a figure totaling more than 45,000. This number is expected to double in 1991. "Fact Sheet: U.S. Expands Orderly Departure for Vietnamese Refugees," U.S. Department of State Dispatch, Volume 2, Number 13, 1 April 1991.

<sup>217</sup>Mary McGrory, "Trading With the Enemy," The Washington Post, 27 June 1991, Sec. A, p. 2.

Hanoi. The refugee issue is as much a global problem of disparity in wealth between countries as it is a political or ideological one. Our friendly relations with Mexico have not stopped the flood of refugees moving north in order to find economic survival denied them in their home country. The U.S. and Vietnam need to address each issue on its own merit, separate from the past animosity, and with respect to the true importance of each issue. The embargo has not changed the government in Hanoi and may, in fact, be driving them closer to Beijing, a situation which may prove detrimental to the solution of these problems and to U.S. interests in the future.

### C. U.S.-THIRD PARTY RELATIONS CENTERING ON VIETNAM AND SOUTHEAST ASIA

The most conclusive interactions between the U.S. and other countries, centering on Vietnam and Southeast Asia, has been through the U.N. Security Council and its participation in the development of the settlement plan for Cambodia. Second to this process, but not entirely separate, has been the U.S. support of ASEAN's cohesive stand against the Vietnamese occupation of Cambodia and the Vietnam-backed government there. A resolution in Cambodia will have profound effects on Southeast Asia and may provide the catalyst for the re-integration of Indochina into the larger body of Southeast Asian nations and its organizations.

The U.N. peace process has also highlighted two new situations. Having gone almost directly from colonial control to Cold War battlefield to growing economic power, Southeast Asia may well be, for the first time in recent history, without a single unifying theme or enemy, creating an atmosphere in which ethnic, religious, or historical disputes may again intrude upon intra-

regional interactions. The second situation which has arisen from the settlement process is that the Chinese have enhanced their regional influence by acting as a broker, particularly in Vietnam and Thailand, and may be moving towards a position to challenge the U.S. and Japan for regional leadership.<sup>218</sup> Both of these new situations offer the U.S. a host of diplomatic problems. The first situation is often cited when the possibility of regional conflicts is suggested, as in the Solomon and Kimmitt speeches mentioned above, giving support to the administration's position that a strong U.S. military presence in Asia is still needed and the second poses a foreign policy dilemma for Washington. China remains repressively communist, as does its neighbors Vietnam and North Korea, but the administration views continued engagement with China along diplomatic and economic lines the proper path, while China has begun calling it "peaceful evolution."<sup>219</sup> In either case, the U.S. will be forced to define its interests in Southeast Asia in such a way as to balance its need to deal with China on the Security Council while defending both its growing economic interests with the ASEAN countries and against the threat of growing Chinese influence in the region.

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<sup>218</sup>Nayan Chanda, "China Emerges as Cambodia Peace Broker," Asian Wall Street Journal, 23 July 1991, p. 1. For more detail on China's brokered influence see Nayan Chanda, "Sino-Vietnamese Detente May Benefit Khmer Rouge," Asian Wall Street Journal: Asian-Pacific News, 19 August 1991, Stephen J. Morris, "Vietnam Picks Up Its China Card," Asian Wall Street Journal, 4 July 1991, and "China announces it will normalize ties with Vietnam," SJMN, 2 September 1991, Sec. A, p. 15.

<sup>219</sup>Lincoln Kaye, Tai Ming Cheung, and Julian Baum, "Bitter medicine," FEER, 5 September 1991, pp. 11-12. The term peaceful evolution is the latest in the long line of dogmatic expressions used by the leadership in Beijing to mean the threat from Western capitalism.

## VII. CONCLUSIONS

This thesis from various perspectives has analyzed one of the most dynamic regions on earth. It has attempted to elucidate U.S. foreign policy towards Vietnam specifically and towards Southeast Asia in general. Vietnam's political, economic, and military condition, its relations with its neighbors in Southeast Asia, and the threats posed to the region by both Japan and China were detailed. The goal in this analysis has been to construct an argument for changing U.S. foreign policy, primarily with respect to Vietnam, but also in the region as a whole. Southeast Asia has been evolving at a staggering pace since the 1970's while U.S. foreign policy there has remained nearly static. Defined interests of the Cold War period now require reassessment and the priority given the role of the U.S. military in Asia must be brought into line with new economic realities.

America's presence in Southeast Asia has been significant and consequential. The Philippines has been America's singular colonial experience, which has lasted for nearly a hundred years and which now appears to be coming to an end. America suffered its only defeat in Vietnam, a war long over but which continues to be relived by a generation of foreign policy makers who remain in control of policy. The U.S. instigated an embargo against Vietnam and Cambodia because of the Vietnamese invasion and establishment of a pro-Vietnamese government in Phnom Penh, all the while ignoring the fact that the Khmer Rouge had seized power from an unpopular government installed by the U.S. Washington allowed the force of its

opposition to Vietnam to dominate its decision to back a resistance coalition in Cambodia which included the Khmer Rouge and to back its membership in the U.N. Only stark evidence that U.S. aid to the non-communist resistance groups was finding its way into Khmer Rouge hands and that indirectly this aid was helping them to regain power in Cambodia, cautioned the U.S. into abandoning its support for the coalition in July 1990; the only major policy shift in Southeast Asia since 1975.

On balance, these negative aspects of U.S. involvement in Southeast Asia do receive more attention than do the positive. The social, cultural, and economic changes brought by Western, and largely American, influences have enriched the region. The shortcomings of U.S. foreign policy in Southeast Asia is that these positive attributes of Western development take a back seat to the issues of security and ideology and often ignore the fact that the cultures of Asia are much older and established than is the American society.

Vietnam and Cambodia are inexorably linked in U.S. policy objectives in the region, so much so, that conditions for the re-establishment of relations between Hanoi and Washington depend on a settlement of the Cambodian civil war. These objectives appear to be bearing fruit, as an agreement on the U.N. peace plan is scheduled for signing by all parties on 31 October 1991 in Paris. However, the circumstances which led to a breakthrough in the deadlock between the Hun Sen government in Phnom Penh and the rest of the factions, over the participation of the Khmer Rouge in the final settlement, have more to do with the recent Sino-Vietnamese rapprochement and China's emerging influence than with U.S. initiatives. China has been the Khmer Rouge's principle supporter and Beijing has continued to funnel arms and

supplies to Pol Pot's resistance fighters through Thailand to counter Vietnamese and Soviet support of the Hun Sen government. The withdrawal of Soviet aid to both Vietnam and Cambodia, followed by the Union's collapse in July and August of 1991, has left the Chinese virtually unopposed in the region, a fact which assuredly led to the Sino-Vietnamese rapprochement and Hanoi's acceptance of the U.N. peace plan, including participation by the Khmer Rouge.

For the near 16 years that the embargo has been the centerpiece of American foreign policy towards the Vietnamese, the Japanese have led a host of "allies" in developing economic ties with Vietnam. The extent of this economic interaction has become a concern for U.S. businessmen who fear that continued denial of the opportunity to invest in the future development in Vietnam will allow these countries, led by Japan, to reap a majority of the economic and political benefits. For their part, the Japanese have upheld the embargo in technical terms, as the main prohibition is on aid from U.S.-dominated lending institutions and on U.S. companies doing business with the Vietnamese. Nothing has prohibited the Japanese from setting up trade offices and doing the ground work for future business ventures. In fact, the type of projects and businesses being launched by the Japanese in Vietnam mirror their involvement elsewhere in Southeast Asia. The scope of their involvement all over Southeast Asia, which includes tied ODA, Japanese-owned investment ventures, and numerous other financial services which tie the countries to Japan economically, threatens the future independence of the region.

It is these two threats, the growing Chinese influence in the region, backed by a program to modernize their armed forces in order to project military

power outside their borders and even outside the region to defend their interests and the developing Japanese economic dominance within the region, especially in investment and aid programs, which must be faced by U.S. policy makers. Ironically, the same time that the Chinese and Japanese threats are replacing the Cold War, U.S. policy makers are embroiled in the reoccurring debate about isolation versus intervention. Economically, American policy is a paradox. The U.S. has unquestionably the world's largest economy, provides the largest market for the world's most developed exporters, and accounts for the largest share of total world trade by a single country. Balanced against this strength are America's fiscal and trade deficits, which have resulted in the U.S. sinking from being the world's largest creditor to the world's largest debtor in less than a generation. Recent growth rates combine with a persistent recession to forecast that the U.S. economy may advance only marginally over the next few years, further eroding America's ability to solve its economic problems. This economic position limits the options which policy makers need in addressing the Japanese economic threat and also pressures lawmakers to reduce military spending, possibly weakening America's ability unilaterally to meet the Chinese military threat.

What are America's options in meeting these threats? What changes in U.S. foreign policy are needed to aid in the creation of viable options? How would bold policy shifts in Southeast Asia be received by the countries there?

Options in meeting the Chinese military (and continued communist) threat are not as simple as comparing U.S. military strength in Asia to the Chinese armed forces. First, the U.S. military presence in Southeast Asia will be drastically reduced over the next decade, given the impending withdrawal

from Subic Bay in the Philippines, what ever the time span settled upon. To counter this lack of presence, the U.S. must be able to rely on individual Southeast Asian nations for at least three things: temporary basing rights or stockpiling of essential military hardware needed to meet a fast-evolving crisis; second, individual militaries within the region must be able to be relied upon, both as a part of an overall deterrence and/or as part of a bilateral or multi-lateral force as was assembled in the Persian Gulf; and third, the U.S. must negotiate treaties or agreements with each government or with some collective security organization, which clearly expresses the nature of U.S. interests in the region and which details specific situations into which the U.S. might become involved bilaterally or as part of a multi-lateral force.

The second factor in meeting the Chinese threat is the U.S.'s China policy itself. As long as the U.S. policy towards China ignores its third-world military sales, growing domestic military capability, and continued communist repression in favor of the over-idealistic approach now taken, which envisions an overthrow of the government by budding capitalists, then Beijing will reap the economic benefits of most-favored-nation (MFN) trading status to support its modernization program for its military. At a time when aid to the Soviet Union is being made contingent upon reductions in its military spending and upon progress in arms reduction negotiations, it would seem prudent, if not imperative, to apply the same logic to economic interactions with China. The current policy may result in the same situation as was seen in Iraq, where a misguided policy of economic and military aid allowed a repressive regime to grow strong enough to press territorial claims outside its borders, as China might do in the Spratlys.

Meeting the Japanese threat will be even more complex, but there are similarities. U.S. economic engagement in Southeast Asia, though growing in total size, has also been retreating in some significant areas, such as banking and finance. This is indicative more of the state of the U.S. economy and the investment policies of large corporations than the competition level in Asia. Whatever the structural changes needed at home, in order for the U.S. to gain a competitive advantage in the developing countries in Southeast Asia, America reevaluate its economic commitments in that region or see those markets cornered by the Japanese whose economic system is designed to provide large amounts of capital for investment and finance. Hand-in-hand with wiser financial investment, should be the realization that Asians require different products than do the Europeans or Americans, and that product development, whether sourced in Asian countries or produced in the U.S., must be tailored to the customers in Asia. This takes a long-term commitment, one which does not easily fit into the American system of corporate profits and dividends.

As with China, U.S. foreign policy towards Japan must reflect the reality of the evolving economics-dominated world and the future interests of each nation. For too long now the U.S. has been avoiding the concept of Japan as something different than a great ally in the Cold War. U.S. policy makers will have to answer the question whether or not America can afford to provide the level of military protection for the Japanese it has since the Korean War and still be able to compete with Japan for the markets of Asia and elsewhere in the world. Sooner or later, the price of the "security umbrella" outweighs the benefits, and that time might be now.

Vietnam may offer a number of options which could be used to combat the threats outlined above, if the proper foreign policy changes are enacted and if they are timely enough to allow the U.S. to catch up to those countries who already have a head start in the Vietnamese market. As shown above, Vietnam is rich in natural resources, manpower, and occupies a strategic location relative to both Southeast and Northeast Asia. Like a number of its neighbors, principally Singapore and Thailand, Vietnam has the unique mixture of cultural heritage, work ethic, and desire which has made those two Southeast Asian nations economically strong and continuing to grow. What the Vietnamese lack is what the U.S. has the most of to offer, technological skill and industrial ability. But so do the Japanese, and to a lesser extent, so do the other nations who have already sought business in Vietnam. The embargo has not affected the change it was designed to elicit and by contrast, it may now be doing more harm, in terms of sheer investment potential, to U.S. businesses than it did to that largely rural nation. If the Japanese are allowed to assert their brand of economic hegemony over the emerging markets in Vietnam, then they will have all but revived the Greater East Asia Co-Prosperty Sphere and will receive a tremendous economic boost when the potential is measured over the next decade or two.

The Vietnamese have already moved closer to China because of the collapse in the Soviet Union. This rapprochement, however, belies the great differences which exist between the scope of economic reform underway in Vietnam and the much slower-paced reforms in China, made much more so by the crackdown which followed Tiananmen Square. There are also vast differences in the pace of reforms geographically within Vietnam, where the

south is progressing much faster than the north. In this, China and Vietnam share a common problem, that of uneven development and distribution of economic activity.

The U.S., aided by other Western nations, ASEAN, and the Asian NIC's, could be an immediate factor in the economic reform underway in Vietnam, creating an atmosphere on China's southern border sure to pressure Beijing to speed reforms, a proposition unwelcome at this time. This might provide an opportunity to swing Hanoi away from this recent policy shift towards China and back towards Southeast Asia and the prosperity it offers. This would not be a unilateral approach, though the end to the embargo rests solely with Washington. A multi-lateral effort such as this could be accomplished through APEC, with far-reaching stabilizing effects for the region and prestige for this new organization. Many APEC members have initiated contacts with Vietnam or have already established projects there.

An historic event for Southeast Asia occurred when on 23 October 1991 in Paris the United Nations Peace Plan for Cambodia was signed by all parties. This agreement, which started as an Australian proposal and became a major priority of the Security Council, will bring to an end 21 years of warfare and will eventually lead to free elections after a period of U.N.-monitored reordering and demilitarizing. As frequently mentioned above, the conclusion of this treaty will also constitute a significant step on the road towards normalization of relations between Vietnam and the U.S. and in fact is the first of the four steps outlined in the "road map" speech given by Secretary Baker in April 1991. Full normalization and a complete end to the embargo will come about when the next phases or steps are completed. These include establishment of a U.N.

transitional administration in in Phnom Phen, six months of U.N. administration, and completion of free election scheduled for 1993.<sup>220</sup>

To summarize, the U.S. is facing a dynamically changing region in Southeast Asia, armed with a foreign policy which lacks synergy because its component parts, particularly defense policy, has not kept pace with these changes. The U.S. also faces this region's challenges without the economic leverage needed to meet both the future military and economic threats. Improvement is necessary. Specific initiatives with regard to China must be enacted that first identify the hazards implicit in dealing so openly with a country which poses such an open threat to a region vital to U.S. interests. The U.S. must also recognize the hazards in not accepting the fact the Japan is becoming more and more a competitor and less and less an ally in the interdependent economic world at the close of the twentieth century. An immediate alteration to U.S.-Vietnamese foreign policy, which may be possible now a settlement has been reached in Cambodia, is needed to prevent a polarization from occurring which might unite all of Indochina, mainland China, and even North Korea into some form of anti-Western bloc based on common ideology and the fear of transition of power due to the age of the present leadership. The U.S. should view Vietnam for its potential, much as Japan, Australia, Britain, and Taiwan have. The U.S. should encourage change, instead of forcing it by such punitive measures as the embargo. This would be consistent with U.S. values and would better promote American national

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<sup>220</sup>Alan Riding, "3 Cambodian Factions Sign A U.N.-Enforced Peace Pact; Khmer Rouge Share Rule," The New York Times, 24 October 1991, Sec. A, pp. 1 & 6 and Steven Greenhouse, "U.S. Open to Talks on Ties to Vietnam," The New York Times, 24 October 1991, Sec. A, p. 7.

interests. The U.S. is in no position economically to overlook a possible market of 70 million or to lose the strategic potential Vietnam could provide in the security of the region.

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